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No. ——

In the Supreme Court of the United States

October Term, 1983

DANNY RAY GRANT et al.
Petitioners

v.

ERIE INSURANCE EXCHANGE et al.,
Respondents

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

RICHARD C. ANGINO, ESQ.
ANGINO & ROVNER, P.C.
4503 North Front Street
Harrisburg, PA 17110
(717) 238-6791
ARNOLD LEVIN
HOWARD J. SEDRAN
LEVIN & FISHBEIN
320 Walnut Street
Philadelphia, PA 19106
(215) 597-1500
Counsel for Petitioners

Murrelle Printing Co., Box 100, Sayre, Pa. 18840—(717) 888-2244

QUESTIONS PRESENTED

1. Did the Third Circuit Court of Appeals err in affirming the District Court's holding that defendant insurance companies' conspiracy not to compete with respect to providing decedent work loss benefits and/or *agreement to violate* the Pennsylvania No-Fault Motor Vehicle Insurance Act with respect to said benefits was the *"business of insurance"* under the McCarran-Ferguson Act and therefore *exempt* from federal antitrust review?

2. Did the Third Circuit Court of Appeals err in affirming the District Court's holding that defendant insurance companies' *private* agreement *not to compete* with respect to providing or paying *statutorily mandated* and *judicially required* decedent work loss benefits was *not* an agreement in restraint of trade under the antitrust laws?

3. Did the Third Circuit Court of Appeals err in affirming the District Court's holding that defendant insurance companies' *private,* joint and collective refusal to deal with the citizens of Pennsylvania in writing decedents' work loss benefits, and the *private,* joint and collective refusal to deal with decedents' representatives in honoring and settling for decedents' work loss benefits were not acts of "boycott, coercion or intimidation?"

Case Caption

[FULL CAPTION]

Danny Ray Grant, Individually and as Administrator of the Estate of Lynda D. Grant, Deceased; C. William Nye, Jr., Individually and as Administrator of the Estates of Barbara Ann Nye, Deceased, and Karen L. Nye, Deceased; Richard I. Reynolds, Individually and as Administrator of the Estate of Michael L. Reynolds, Deceased; David Paul Yandrich, Individually and as Administrator of the Estates of George N. Yandrich, Deceased, and George Yandrich, Deceased; and all others similarly situated,

Petitioners

vs.

Erie Insurance Exchange; Aetna Casualty and Surety Company; Allstate Insurance Company; American States Insurance Company; CNA Insurance Company; Commercial Union Assurance Company; Donegal Mutual Insurance Company; Employer's Insurance of Wausau; Fireman's Fund Insurance Companies; General Accident Group; Harleysville Insurance Company; Hartford Insurance Group; Home Insurance Company; Insurance Company of North America; Kemper Insurance Company; Keystone Insurance Company; Liberty Mutual Insurance Company; Maryland Casualty Company; Motorists Insurance Companies; Nationwide Mutual Insurance Company; Ohio Casualty Insurance Company; Pennsylvania National Insurance Group; Prudential Property and Casualty Insurance Company; Royal-Globe Insurance Company; Safeco Insurance Company; Shelby Mutual Insurance Company; State Automobile Mutual Insurance Company; Statesman Group; State Farm Mutual Automobile Insurance Company; Travelers Insurance Companies; United States Fidelity and Guaranty Company;

Respondents

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No. ——

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DANNY RAY GRANT, et al.

Petitioners

v.

ERIE INSURANCE EXCHANGE et al.,

Respondents

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

The petitioners Danny Ray Grant et al. respectfully pray that a writ of certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Third Circuit entered in this proceeding on June 14, 1983.

OPINIONS BELOW

The opinions of the Court of Appeals, and of the District Court, not yet reported, appear in the Appendix hereto.

JURISDICTION

On June 14, 1983, the Third Circuit Court of Appeals entered judgment in favor of the respondents. There have not been any orders with respect to a rehearing of that judgment or extensions of time within which to petition for certiorari. This petition for certiorari was filed within 90 days of the judgment of the Court of Appeals. Your Court's jurisdiction is invoked under 28 U.S. §1254-(1).

STATUTORY PROVISIONS

15 U.S.C. §1012:

(a) The business of insurance, and every person engaged therein, shall be subject to the laws of the several States which relate to the regulations or taxation of such business.

(b) No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance, or which imposes a fee or tax upon such business, unless such Act specifically relates to the business of insurance: Provided, That after June 30, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended shall be applicable to the business of insurance to the extent that such business is not regulated by State law.

15 U.S.C. §1013:

(a) Until June 30, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, and the Act of June 19, 1936, known as the Robinson-Patman Anti Discrimination Act shall not apply to the business of insurance or to acts in the conduct thereof.

(b) Nothing contained in this Act shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion, or intimidation.

15 U.S.C. §1:

Every contract combination in the form of trust or otherwise or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal. . . .

STATEMENT OF THE CASE

Petitioner, Danny Ray Grant, individually, and as administrator of the Estate of Lynda D. Grant, deceased, and three other estate administrators, on their own behalf and on behalf of others similarly situated, filed their antitrust complaint in the United States District Court for the Middle District of Pennsylvania on November 5, 1980. Thirty-one insurance companies writing *more than 95%* of the no-fault auto insurance business in Pennsylvania were named as defendants below.

The complaint alleged that defendants *conspired not to compete* with one another with respect to providing certain insurance coverage under Pennsylvania's No-Fault Motor Vehicle Insurance Act. Specifically, petitioners alleged that the defendant insurers *privately* agreed to universally define the term "victim" in insurance policies in such a fashion as to exclude 2000 people who die annually on Pennsylvania highways. *As a group* they *privately* persisted *through their federations* to resist post mortem work loss claims *despite the unanimous opinion of the Pennsylvania Supreme Court to the contrary.* Petitioners alleged that the insurers' activities were violative of the antitrust laws, specifically 15 U.S.C. §§1 and 2.

Many, but not all, of the defendants filed answers to the complaint. Thereafter, defendants filed twenty motions to dismiss on behalf of twenty-four defendants; four motions for judgment on the pleadings on behalf of four defendants and a motion for summary judgment on behalf of three defendants. Three of the defendants, through

stipulated facts, admitted to various facts, including specifically the fact that these defendants have continually met with one another through their trade associations and made joint decisions concerning the decedent work loss issue.

Defendants, in their Third Circuit brief, had the temerity to assert McCarran-Ferguson immunity even if they privately agreed to violate state law.

> Defendants' refusal to pay work loss claims on behalf of decedents, whether viewed as an agreement upon a uniform interpretation of the No-Fault Act, *an agreement to violate the No-Fault Act*, or an agreement to establish and enforce uniform policy provisions, satisfied these criteria. (Emphasis added.) (P. 30 of Joint brief.)

On June 8, 1982, the District Court for the Middle District of Pennsylvania filed a memorandum and order ruling on the various motions filed by respondents, defendants below. (A copy of the order is a part of the Appendix hereto.) The court held that the defendant insurance companies had immunity under the McCarran-Ferguson Act and that petitioners' complaint should be dismissed because it failed to allege a violation of the antitrust laws. Accordingly, the court entered judgment in favor of all the defendants, respondents herein. On June 14, 1983, the Third Circuit Court of Appeals, without opinion, affirmed the dismissal of petitioners' claims. The instant petition for certiorari was filed within 90 days of the Court of Appeals judgment.

The basis for federal jurisdiction in the first instance was pursuant to 28 U.S.C. §1331.

REASONS FOR GRANTING THE WRIT

A. An Important Question of Federal Antitrust Law Should Be Settled by This Court

First, the Third Circuit Court of Appeals affirmed the lower court's holding that a conspiracy among insurance companies not to compete with one another with respect to providing certain insurance coverage or even an agreement to *violate* a state insurance law is the *"business of insurance"* and thus *exempt* from antitrust scrutiny. Your Court has explored the fringes of this issue in a series of recent cases. See *Group Life & Health Insurance Company v. Royal Drug Company*, 440 U.S. 205 (1979); *St. Paul Fire & Marine Insurance Company v. Barry*, 438 U.S. 531 (1978); *Union Labor Life Insurance Company v. Pireno*, *U.S.* , 102 S.Ct. 3002, 3009 (1982). The important question of federal antitrust law presented in the instant case has not been presented or decided by your Court. Thousands of decedent families and millions of dollars are involved. The precedential potential is shocking. The Third Circuit judgment, as it now stands, permits insurance companies to privately meet in small groups or through their federations and agree to universally provide or not provide benefits despite the existence of state laws to the contrary. The McCarran-Ferguson Act clearly was never intended to apply so broadly.

Reasons for Granting the Writ

1. *Summary of the Legislative History of the McCarran-Ferguson Act*

The roots of the McCarran-Ferguson Act are traceable to the Supreme Court's opinion in *Paul v. Virginia*, 75 U.S. 168 (1868), which upheld a Virginia statute aimed at the regulation of foreign insurance companies. This Court held that the issuance of an insurance policy was not a transaction of commerce and therefore the state statute did not offend the commerce cause. *Id.* at 183.

Subsequent to this Court's opinion and for the next seventy-four years, this Court consistently held that insurance was not "commerce" and not subject to federal regulation under the commerce clause. *E.g., New York Life Insurance Company v. Deer Lodge County*, 231 U.S. 495 (1913); *Hooper v. California*, 155 U.S. 648 (1895). As a result of such rulings, the insurance industry operated almost exclusively under state regulation between 1869 and 1943. In 1944, however, this Court overturned *Paul v. Virginia* and held that the business of insurance *was* commerce and subject to federal antitrust legislation. *United States v. South-Eastern Underwriters Association*, 322 U.S. 533 (1944). Subsequent to the Supreme Court's opinion, Congress enacted the McCarran-Ferguson Act in order to restore to the states, except in certain circumstances, primary regulation of the insurance industry which was stripped away in *South-Eastern*.

The passage of the McCarran-Ferguson Act was preceded by the introduction in the Senate Committee of a report and a bill submitted by the National Association of Insurance Commissioners on November 16, 1944. This Court in *Group Life & Health Insurance Company v.*

Royal Drug Company, 440 U.S. 205 (1979) ("Royal Drug"), found the views of the NAIC particularly significant because the McCarran Act was based in large part on the NAIC proposal. *Id.* at 221.

The report emphasized the need for insurance companies to collectively analyze risks so as to insure the continued viability of such companies. Without Congressional approval for such activities, smaller insurance companies would run the risk of miscalculating the statistical likelihood of an event and, accordingly, could face financial disaster. The report specifically stated:

> For these and other reasons this subcommittee believes it would be a mistake to permit or require the unrestricted competition contemplated by the antitrust laws to apply to the insurance business. *To prohibit combined efforts for statistical and rate-making purposes would be a backward step* in the development of a progressive business. We do not regard it as necessary to labor this point any further because *Congress itself recently recognized the necessity for concert of action in the collection of statistical data and rate-making* when it enacted the District of Columbia Fire Insurance Rating Act. (90 Cong. Rec. A 4405 (1944).) (Emphasis added.)

The original bill sponsored by the National Association of Insurance Commissioners enumerated seven specific practices to which the Sherman Act was not to apply. These proposals were rejected by Congress and were replaced with a *narrower* exemption. In fact, *none* of the *original* seven practices envisioned *sanctioning* agreements among insurers *not* to compete with respect to providing insurance benefits.

The House Judiciary Committee Report on H.R. 3270, a forerunner of the McCarran-Ferguson Act, also recognized that insurance is the "distribution of risk according to hazard, experience, and the laws of averages." H.R. Rep. No. 873, 78th Cong., 1st Sess. 8-9 (1943). These factors, the report stated, "are not within the control of insuring companies in the sense that the producer or manufacturer may control cost factors." *Id.* at 9. These conclusions were echoed in S. Rep. No. 112, 78th Cong., 2d Sess. 6 (1944), which viewed insurance as a personal promise of indemnity, and thus, "something quite different from the ordinary commercial transaction."

Indeed, in signing the legislation which was ultimately adopted by both the House and Senate, President Roosevelt stated that "Congress did not intend to permit *private* rate fixing which *the Antitrust Act forbids*, but was willing to permit actual regulation of rates by affirmative action by the states." (Emphasis added.) *Royal Drug, supra,* at 224, citing S. Rosenman, The Public Papers of Franklin D. Roosevelt 587 (1950).

The legislative history thus confirms what your Court stressed in *Royal Drug*, namely, *"the business of insurance . . . [is] the underwriting and spreading of risk."* 440 U.S. at 220-221. (Emphasis added.)

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2. Risk Reduction Is Not the Business of Insurance

In *Royal Drug* and *Union Labor Life Insurance Company v. Pireno,* U.S. , 102 S.Ct. 3002, 3009 (1982), your Court made clear that the Congressional purpose behind the McCarran-Ferguson Act was to per-

mit insurance companies to collaborate with respect to *statistical and rate-making* matters in order to safely *spread the risk* of insuring against particular risks. The transfer of risk from insured to insurer is effected by means of the contract between the parties—the insurance policy—and that transfer is complete at the time in which the contract is entered. *Union Labor Life Insurance Company v. Pireno, supra;* citing 9 G. Couch, Cyclopedia of Insurance Law §§39:53, 39:63 (2d ed. 1962). Therefore, insurers are permitted to *share information* concerning the frequency and magnitude of various losses in order to develop a reliable *statistical base* for rates. Moreover, the contract with the insured which incorporates that rate is also the business of insurance. By contracting at a given rate the insurance company *spreads,* among all its policyholders, the *risk* against which the policy was issued.

A conspiratorial decision by the insurers not to compete with respect to providing work loss benefits for decedents' estates or a private agreement to violate state law and not pay such proceeds to decedents' estates, however, does not fall within the risk underwriting exemption and is not protected from the antitrust laws. The refusal to pay work loss benefits is merely risk reduction. "[T]here is an important distinction between risk underwriting and risk reduction. By reducing the total amount it must pay to policyholders, an insurer reduces its liability and therefore its risk. But unless there is some element of spreading risk more widely, there is no underwriting of risk." *Royal Drug* at 214.

Further, a conspiratorial decision not to pay work loss benefits to decedents' estates is not considered the

business of insurance because it occurs *after* the transfer of risk from the insured to insurer has already been made. In *Union Labor Life Insurance Company v. Pireno, supra,* your Court held that a Peer Review Committee utilized by an insurer to aid it in evaluating whether claims for chiropractic treatments were necessary and reasonable was not an exempt activity because it occurred *subsequent* to the evaluation and transfer of risk.

In the instant case, the District Court and the Court of Appeals also misconstrued dictum found in *Securities & Exchange Commission v. National Securities, Inc.,* 393 U.S. 453 (1969), in support of the conclusion that the insurers' activities herein were the business of insurance.[1] The *National Securities* case *simply* held that an Arizona statute which sought to regulate the relationship between a stockholder and the insurance company in which he owned stock was not the business of insurance because such relation did not concern itself with the relationship between the insurer and the insured. A careful reading

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[1] The passage relied upon was as follows:

> Congress was concerned with the type of state regulation that centers around the contract of insurance, the transaction which Paul v. Virginia held was not "commerce." The relationship between insurer and insured, the type of policy which could be issued, its reliability, interpretation, and enforcement —these were the core of the "business of insurance." Undoubtedly, other activities of insurance companies relate so closely to their status as reliable insurers that they too must be placed in the same class. But whatever the exact scope of the statutory term, it is clear where the focus was—it was on the relationship between the insurance company and the policyholder. *SEC v. National Securities, Inc.,* 393 U.S. 453 at 460 (1969).

of *National Securities* reveals that your Court did not hold *all* matters concerning contract interpretation were exempt from the antitrust laws. Moreover, your Court did not hold that a conspiracy among insurers was the business of insurance. At most, your Court held that the direct activity between insurers and insureds—*not an insurer conspiracy*—was the business of insurance. 393 U.S. at 459.

B. The Third Circuit's Judgment Order Is in Conflict With the Applicable Decisions of Your Court

Second, your Court should grant the instant petition for certiorari because the Third Circuit judgment affirming the holding that the refusal of the respondent insurance companies to provide certain insurance coverage in order to enforce their conspiracy not to compete is in conflict with the applicable decisions of your Court.

Petitioners' complaint alleged a non-exempt "boycott." In addition to not protecting activities which are not within the "business of insurance," the McCarran-Ferguson Act expressly provides an exception to the general exemption contained in Section 3(b): "Nothing contained in this chapter shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion or intimidation." 15 U.S.C. §1013(b) (1976).

The first Supreme Court interpretation of Section 3(b) occurred in *St. Paul Fire & Marine Insurance Company v. Barry*, 438 U.S. 531 (1978). In *Barry*, the plain-

tiffs, who were doctors in Rhode Island and their patients, instituted a class action against the four insurance carriers that had written medical malpractice insurance in the state. In 1975 one of the carriers, St. Paul, announced that it no longer would renew malpractice coverage on an "occurrence" basis (covering any liabilities arising out of acts done during the policy term), and thereafter would write insurance only on a "claims made" basis (covering only claims filed during the term of the policy). According to the plaintiffs' allegations, St. Paul then induced the other malpractice insurers in Rhode Island to refuse to accept applications for malpractice insurance from any of St. Paul's current policyholders. The effect of this alleged scheme would have been to force the plaintiffs to deal only with St. Paul and only on terms dictated by that company. When plaintiffs filed an antitrust claim against the insurance companies, the defendants moved to dismiss on McCarran-Ferguson Act grounds. The district court granted the motion, but a divided First Circuit panel reversed, relying on the Act's "boycott" exception in Section 3(b). Your Court affirmed the judgment of the Court of Appeals.

Before your Court, the defendants argued that the term "boycott" in Section 3(b) should be construed as reaching only those combinations that are intended to coerce competitors (e.g., other insurers), rather than consumers. Your Court rejected the thesis. First, your Court asserted that, "in the absence of indications to the contrary," the statutory language should be construed in accordance with "the customary understanding of 'boycott' at the time of enactment," especially the understanding manifested in Sherman Act case law. So interpreted,

your Court said, the term "boycott" could not be confined to disputes among competitors.

Your Court then proceeded to inquire whether any special factors in the McCarran Act's history or structure dictated a narrower reading of Section 3(b). The legislative history, according to Justice Powell, did not support the defendants' proposed limitation, but rather manifested broad concern about the adverse effects of "regulation by private combinations and groups." Your Court also noted the defendants' argument that a broad construction of Section 3(b) would frustrate the principal objectives of the McCarran-Ferguson Act, since Section 2-(b) generally assigns regulatory control over "the business of insurance" to the states. Justice Powell's response to these points was that the very purpose of Section 3(b) was to limit the effect of Section 2(b).

In defining the scope of the boycott provision, your Court stated:

> This Court also has held unlawful, concerted refusals to deal in cases where the target is a customer of some or all of the conspirators who is being denied access to a desired goods or services because of a refusal to accede to particular terms set by some or all of the sellers. (*Id.* at 543.) (Citations omitted.)

The alleged boycott in *Barry* concerned a refusal by conspirators to provide medical malpractice insurance to appellee so that the appellee was only able to procure such insurance from appellant on an "occurrence" basis rather than on a "claims made" basis; however, your Court plainly did not limit its holding to the particular facts before it. For example, your Court held that "[*t*]*he enlist-*

ment of third parties in an agreement not to trade, as a means of compelling capitulation by the boycotted group, long has been viewed as conduct supporting a finding of unlawful boycott." 438 U.S. at 544-545. (Emphasis added.) (Citations omitted.) *In other words, an agreement not to compete with respect to particular insurance coverage also constitutes a boycott under the McCarran-Ferguson Act.* 438 U.S. at 545, n.17. Your Court was of the opinion that the insurers' refusal to provide any medical malpractice insurance was a more severe restraint than refusing to compete with respect to coverage; however, your Court held that a conspiracy of the latter type was nevertheless an illegal restraint of trade:

> St. Paul's policyholders became the captives of their insurer. In a sense the agreement imposed an even greater restraint on competitive forces than a horizontal pact not to compete with respect to price, coverage, claims policy, and service, since the refusal to deal in any fashion reduced the likelihood that a competitor might have broken ranks as to one or more of the fixed terms. The conduct alleged here is certainly not . . . within the category of "agreements which can normally be made in the insurance business." (*Id.* at 553.) (Citation omitted.)

In the instant case, petitioners have alleged that the insurers agreed not to compete with respect to providing or paying work loss benefits to decedents' estates. Obviously, if *any* of the companies offered such coverage or paid such claims, at least some of the other companies would have had to do likewise in order to effectively compete with the more competitive company. *See,* 438 U.S. at 545, n.17. Additionally, the presentation of a universal

front protects the carriers from state insurance department action. Therefore, the District Court's holding, which was affirmed by the Third Circuit, that "an agreement to fix terms of coverage is comparable to an agreement to fix prices", and thus does not constitute a "boycott" was erroneous. Moreover, the conclusion that "individuals in the market for no-fault insurance were not limited with respect to the company from which they could purchase insurance coverage" was also in error. As a result of the alleged conspiracy, purchasers were unable to obtain insurance which included work loss coverage payable to decedents' estates. They were unable to obtain work loss death benefits to which they were entitled. As it now stands, the Third Circuit judgment effectively erodes your Court's opinion in *St. Paul Fire & Marine Insurance Company v. Barry, supra,* 438 U.S. at 542-545.

CONCLUSION

If the present action fails, the "standing" and "statute of limitations" arguments of defendants in state *assumpsit* class actions may well result in many thousands of widows and children being deprived of statutorily-mandated and judicially-required benefits. The insurance industry in Pennsylvania will have accomplished privately by agreement what they could not obtain from the legislature or the Courts. For these reasons, a writ of certiorari should issue to review the judgment and opinion of the Third Circuit.

Respectfully submitted,

RICHARD C. ANGINO, ESQ.
ANGINO & ROVNER, P.C.
4503 North Front Street
Harrisburg, PA 17110
(717) 238-6791

ARNOLD LEVIN
HOWARD J. SEDRAN
LEVIN & FISHBEIN
320 Walnut Street
Philadelphia, PA 19106
(215) 592-1500
Counsel for Petitioners

September 9, 1983

APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 82-3300

DANNY RAY GRANT, et al.

Appellants

v.

ERIE INSURANCE EXCHANGE, et al.

(Civil No. 80-1281—M.D. Pa.—Scranton)

DISTRICT JUDGE: HONORABLE R. DIXON HERMAN

Argued May 16, 1983

BEFORE: SEITZ, *Chief Judge,* GIBBONS and BECKER, *Circuit Judges.*

JUDGMENT ORDER

After consideration of the contentions raised by appellants and essentially for the reasons expressed by the District Court with regard to the McCarran-Ferguson Act, it is

Judgment Order, U.S. Court of Appeals

ADJUDGED AND ORDERED that the judgment of the district court be and is hereby affirmed.

Costs taxed against appellants.

By the Court,
(s) Collins J. Seitz
Chief Judge

ATTEST:
(s) Sally Mrvos
Sally Mrvos, Clerk

Dated: Jun 14 1983

Judgment, U.S. District Court

UNITED STATES DISTRICT COURT
For The
MIDDLE DISTRICT OF PENNSYLVANIA

Civil Action File No. 80-1281

DANNY RAY GRANT, Individually and as Administrator of the Estate of Lynda D. Grant, Deceased; et al.,
Plaintiffs

vs.

ERIE INSURANCE EXCHANGE: et al.,
Defendants

JUDGMENT

This action came before the Court, Honorable R. Dixon Herman, United States District Judge, presiding, and the issues having been duly tried (heard) and a decision having been duly rendered,

It is Ordered and Adjudged that judgment be entered in the favor of the Defendants Aetna Casualty & Surety Co., Allstate Insurance Co., CNA Insurance Co., General Accident Group, Hartford Insurance Group, Liberty Mutual Insurance Co., and Ohio Casualty Insurance Co., and against Plaintiffs.

Dated at Harrisburg, PA, this 8th day of June, 1982.

Donald R. Berry, Clerk
(s) Lisa A. Walborn
Deputy Clerk of Court
Lisa A. Walborn

IN THE UNITED STATES DISTRICT COURT FOR THE MIDDLE DISTRICT OF PENNSYLVANIA

Civil Action No. 80-1281

DANNY RAY GRANT, Individually and as Administrator of the Estate of Lynda D. Grant, Deceased; et al.,
Plaintiffs

vs.

ERIE INSURANCE EXCHANGE; et al.,
Defendants

MEMORANDUM AND ORDER

On November 5, 1980, Plaintiffs[1] commenced this antitrust class action against thirty-one Defendant Insur-

[1] In paragraph 9 of the complaint, Plaintiffs allege:

Representative Plaintiffs are the Administrators of the Estates of deceased victims of motor vehicle accidents killed after the effective date of the Pennsylvania No-Fault Motor Vehicle Insurance Act, to wit, July 19, 1975.

ance Companies[2] pursuant to 15 U.S.C. §§1 through 7, 13 and 15, *as amended*. In the complaint, Plaintiffs allege that Defendants have conspired in restraint of trade to deny work loss benefits to individuals killed in motor vehicle accidents occurring on or after July 19, 1975. This alleged conspiracy consisted of an agreement or agreements among Defendants to refuse to offer insurance coverage with respect to work loss benefits of deceased victims of motor vehicle accidents, not to pay claims for such benefits, to conceal from potential claimants the right to bring such claims, and to provide a joint and uniform defense to claims for work loss benefits. In response, Defendants filed twenty motions to dismiss on behalf of twenty-four Defendants, four motions for judgment on the pleadings on behalf of four Defendants, and a motion for summary judgment on behalf of three Defendants.[3] The parties

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[2] By motion filed on January 19, 1981, Plaintiffs sought to amend the complaint to add three Defendants, namely, Insurance Federation of Pennsylvania, National Association of Independent Insurers, and The American Insurance Association. On the same day, the court ordered Defendants to show cause why Plaintiffs should not be permitted to amend the complaint. Although Defendants, at a conference held on January 28, 1981, indicated that they had no position on Plaintiffs' motion, the court inadvertently failed to grant the motion to amend. We find no reason to correct that oversight because of the decision we reach today.

[3] Upon request by Plaintiffs, the court designated this action as complex litigation and directed that a preliminary pretrial conference be held on January 28, 1981. At that conference, the court ordered a stay of all discovery pending disposition of Defendants' dispositive motions and extended the time within which Plaintiffs could file a motion for class action certification. On March 20, 1981, Plaintiffs filed their motion for class certification and a supporting brief, to which Defendants jointly responded on

have submitted numerous briefs with regard to these motions and oral argument was held on March 13, 1981.[4]

I. Introduction

The controversy in this action surrounds provisions of the Pennsylvania No-Fault Motor Vehicle Insurance Act, 40 P.S. §§1009.101-.701 (Purdon's Supp. 1981), that provide for payment of work loss benefits to persons who suffer injuries arising out of the maintenance or use of motor vehicles. 40 P.S. §§1009.201-.202. The Act establishes minimum insurance coverage for specified victims or survivors of deceased victims. The basic loss benefits include allowable expenses, work loss, replacement services losses and survivors losses. 40 P.S. §1009.-202. As defined by the Act,

> "Work loss" means:
>
> (A) loss of gross income of a victim, as calculated pursuant to the provisions of section 205 of this act [40 P.S. §1009.205]; and
>
> (B) reasonable expenses of a victim for hiring a substitute to perform self-employment services,

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April 2, 1981. Defendants maintained that consideration of the class certification issue should await the court's ruling on dispositive motions. In light of the nature of this action, the court agreed wih Defendants' position. In any event, Plaintiffs' motion for class action certification is rendered moot by this Memorandum and Order.

[4] On March 13, 1981, Plaintiffs filed a petition for a restraining order ancillary to the class action against Defendant State Farm Mutual Automobile Insurance Co. Since Plaintiffs did not submit a brief in support of that motion within ten days of filing the motion as required by Local Rule of Court 401.5, the court has deemed the motion to be withdrawn pursuant to the Local Rule.

thereby mitigating loss of income, or for hiring special help, thereby enabling a victim to work and mitigate loss of income.

40 P.S. §1009.103. Although numerous questions of statutory interpretation arose following passage of the Act, a significant issue involved whether a "deceased victim" could receive work loss benefits. While several lower state courts determined that work loss benefits were only available to victims who survive a motor vehicle accident, *see e.g., Pontius v. United States Fidelity & Guaranty Co.*, 100 Dauphin 133 (Pa. C.P. 1978); *Winegart v. State Farm Mutual Automobile Insurance Co.*, No. 77-5-3437 (York County C.P., filed April 4, 1978); *Anderson v. Nationwide Insurance Co.*, No. 76-19366 (Montgomery Co. C.P., filed February 24, 1978); *Heffner v. Allstate Insurance Co.*, No. 76-3406 (Philadelphia County C.P., filed November 28, 1977); the Superior Court of Pennsylvania and the Supreme Court of Pennsylvania both concluded otherwise. *Heffner v. Allstate Insurance Co.*, 265 Pa. Super. Ct. 181, 401 A.2d 1160 (1979), *aff'd*, 491 Pa. 447, 421 A.2d 629 (1980); *Pontius v. United States Fidelity & Guaranty Co.*, No. 80 March Term, 1978 (Pa. Super. Ct., July 3, 1979), *aff'd*, 491 Pa. 447, 421 A.2d 629 (1980). In the action at bar, Plaintiffs contend that Defendants have refused to provide insurance coverage for work loss benefits of deceased victims and to make payment of such benefits to individuals entitled thereto even though the No-Fault Act mandates such minimum coverage. Specifically, Plaintiffs allege that, in furtherance of a conspiracy to restrain trade, Defendants have taken concerted action to

A. Join in a common plan of refusing or delaying payments of said benefits based on jointly conceived spurious legal grounds;

B. Refuse to compete in providing services such as payment of said benefits to policyholders;

C. Provide for a uniform defensive posture regardless of the differences in the policies of insurance issued by each of the Defendants;

D. Conceal from potential claimants their rights to bring claims for work loss benefits;

E. Restrain competition among themselves by refusing to compete in offering to potential customers and claimants competitive benefits or claims service with regard to decedent's work loss;

F. Conspire to [sic] fix the type and amount of claims services with regard to no-fault work loss benefits for decedents.

Complaint, ¶14.

Although Defendants have sought resolution of this action in three different ways, the grounds upon which they rely are substantially the same. First, they contend that the McCarran-Ferguson Act, 15 U.S.C. §§1011-1015, exempts the conduct in question from federal antitrust legislation. Second, they claim that the "state action" doctrine immunizes the alleged activity from antitrust scrutiny. In addition, Defendants assert that their activities constitute an exercise of their First Amendment rights which is outside the scope of the antitrust laws in accordance with the *Noerr-Pennington* doctrine. Finally, Defendants claim that Plaintiffs have failed to allege a restraint of trade or any other antitrust violations.

II. Plaintiffs' Claims Pursuant to 15 U.S.C. §§2, 3, 6 and 13

In the complaint, Plaintiffs allege that this action is brought pursuant to 15 U.S.C. §§1 through 7, 13 and 15, *as amended*. Even if the court found that the complaint should not be otherwise dismissed, Plaintiffs have clearly failed to state a claim upon which relief can be granted based upon 15 U.S.C. §§2, 3, 6 and 13. 15 U.S.C. §2 prohibits monopolies or attempts to monopolize. 15 U.S.C. §3 affects only antitrust activities that involve a United States territory or the District of Columbia. 15 U.S.C. §6 relates only to forfeiture of property in transit to the United States. Finally, 15 U.S.C. §13 makes it unlawful to discriminate between different purchasers of commodities in prices, services or facilities. The court has reviewed the complaint and discovered no allegations that even vaguely hint at violations of those provisions. Moreover, Plaintiff has completely failed to respond to the arguments in favor of dismissal based on these contentions. Therefore, the complaint will be dimissed to the extent it raises antitrust claims pursuant to these provisions.[5]

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[5] Accordingly, Plaintiffs' antitrust claim is limited to 15 U.S.C. §1, which prohibits "[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States . . . ." The remaining provisions merely relate to civil actions by private persons, 15 U.S.C. §15; jurisdiction, 15 U.S.C. §4; bringing in additional parties, 15 U.S.C. §5; and definitions, 15 U.S.C. §7.

Memorandum

III. The McCarran-Ferguson Act

The McCarran-Ferguson Act provides in relevant part:

> Sec. 2 (a) The business of insurance, and every person engaged therein, shall be subject to the laws of the several States which relate to the regulation or taxation of such business.
>
> (b) No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance, or which imposes a fee or tax upon such business, unless such Act specifically relates to the business of insurance: *Provided,* That after June 30, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, shall be applicable to the business of insurance to the extent that such business is not regulated by State law.
>
> Sec. 3.
>
> . . .
>
> (b) Nothing contained in this chapter shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion, or intimidation.

15 U.S.C. §§1012-1013. To come within the scope of this exemption, Defendants must show that the challenged activity is (1) part of the business of insurance, (2) regulated by state law and (3) not an agreement or act to

boycott, coerce or intimidate. We address these requirements seriatim.

A. Business of Insurance

As the Court of Appeals for the Third Circuit recently observed:

> The McCarran-Ferguson Act contains no definition of the "business of insurance." The term appears in a statute creating a limited exemption to the antitrust laws, however, and thus falls within the compass of the general rule that even express exemptions from antitrust laws are narrowly construed. Thus the Court has held that the exemption is not applicable to all activities of insurance companies, but only to those activities falling within the "ordinary understanding" of the statutory phrase. *Group Life & Health Ins. Co. v. Royal Drug Co.*, 440 U.S. 205, 211 (1979); *SEC v. National Securities, Inc.*, 393 U.S. 453, 459-60 (1969).

Owens v. Aetna Life & Casualty Co., 654 F.2d 218, 224 (3d Cir.), *cert. denied*, U.S. (1981) (footnote omitted). Commonly understood aspects of the business of insurance are spreading and underwriting of a policyholder's risk and the relationship between the insurer and insured. *Group Life & Health Insurance Co. v. Royal Drug Co.*, 440 U.S. at 211-17. As explained in *SEC v. National Securities, Inc.*,

> *The relationship between insurer and insured, the type of policy which could be issued, its reliability, interpretation, and enforcement—these were the core of the "business of insurance."* Undoubtedly, other

> activities of insurance companies relate so closely to their status as reliable insurers that they too must be placed in the same class. But whatever the exact scope of the statutory term, it is clear where the focus was—it was on the relationship between the insurance company and the policyholder.

393 U.S. at 460. Clearly, the acts alleged in the complaint fall within this group of activities.

Cooperative efforts by Defendants with respect to collection of statistical data and ratemaking are unquestionably part of the business of insurance. The Third Circuit Court of Appeals has also recognized that the authorization of agents to solicit individual or group policies and the acceptance or rejection of coverages tendered by brokers is covered within the ambit of business of insurance. *Owens v. Aetna Life & Casualty Co.*, 654 F. 2d at 226. We perceive no distinction between such conduct and joint undertakings concerning the interpretation and extent of coverage of the Pennsylvania No-Fault Motor Vehicle Insurance Act. In *McIlhenny v. American Title Insurance Co.*, 418 F. Supp. 364 (E.D. Pa. 1976), the court granted a motion to dismiss when the complaint alleged that the defendant title insurance companies agreed among themselves to require purchasers of newly constructed homes to buy mechanic's lien insurance as part of their coverage. In so ruling, the court concluded that "[m]atters of rate, extent of coverage, and policy provisions go to the very heart of the relationship between the insurance company and the policyholder and therefore clearly fall within the *National Securities* definition of the business of insurance." *Id.* at 369. *See also Anglin v. Blue Shield of Virginia*, 510 F. Supp. 75, 78-79 (W.D.

Va. 1981) (extent of insurance coverage constitutes business of insurance). Although *McIlhenny* was decided prior to the *Royal Drug* case, we have not discerned any analysis in *Royal Drug* that would mandate a contrary result in *McIlhenny*.

The cases cited by Plaintiffs to support their position, however, concern agreements between insurance companies and noninsurers. *Group Life & Health Insurance Co. v. Royal Drug Co.*, 440 U.S. 205 (1979) (agreement between insurer and retail pharmacists); *Pireno v. New York State Chiropractic Assoc.*, 650 F.2d 387 (2d Cir. 1981) (agreement between insurer and peer review committee);[6] *St. Bernard Hospital v. Hospital Service Association of New Orleans, Inc.*, 618 F.2d 1140 (5th Cir. 1980) (contract between insurer and hospital); *Liberty Glass Co. v. Allstate Insurance Co.*, 607 F.2d 135 (5th Cir. 1979) (agreement to fix prices between insurers and glass installers). As such, those agreements undoubtedly went beyond the business of insurance. We find no similarity between the concerted conduct alleged in the complaint and the agreements in those cases.

Even if the alleged agreement to fix the extent of coverage regarding work loss benefits to victims of motor vehicle accidents is the business of insurance, Plaintiffs also attack the joint meetings to discuss common litigation

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[6] In *Pireno*, the Second Circuit noted that "the specification of the terms of the contract between insurer and insured seems far more closely associated with the business of insurance than does the use of consultants in interpreting the policy limits." 650 F.2d at 394, n. 11. Such language certainly detracts from the persuasive force of the *Pireno* decision as applied to the issues in this case.

strategy, coordinating defenses to prevent claimants from recovering work loss benefits and other combined efforts to avoid payment of work loss benefits to deceased victims. The court believes that such conduct is part of the business of insurance in that it relates to the interpretation and enforcement of the relationship between insurer and insured. *See SEC v. National Securities, Inc.*, 393 U.S. at 460. Since these activities are necessary to carry out any agreement concerning the extent of insurance coverage and type of policy, they fall within the language of the statute. To rule otherwise would vitiate the effect of the agreement. In any event, as we explain in a subsequent portion of this memorandum, such conduct resulted from a dispute over state law. It does not constitute a restraint of trade or any other antitrust violation.[7]

B. Regulated by State Law

The court has no difficulty in concluding that the alleged activity is regulated by Pennsylvania insurance law. Under the provisions of the No-Fault Act,

> Approval of terms and forms. —Terms and conditions (including forms used by insurers) of any contract, certificate, or other evidence of insurance sold or issued pursuant to this State's no-fault plan for motor vehicle insurance in accordance with this act and providing no-fault benefits or any required tort liability are subject to approval and regulation by the commissioner. The commissioner shall approve only terms and conditions which are consistent with the purposes of this act and fair and equitable

[7] *See* pp. 21a-23a *infra*.

> to all persons whose interests may be affected. The commissioner may reasonably limit by rule the variety of coverage available in order to give purchasers of insurance a reasonable opportunity to compare the cost of insuring with various insurers.

40 P.S. §1009.209 (b). The No-Fault Act further requires that insurers who desire to write insurance applicable to motor vehicle accidents "shall, as a condition of qualifications, prepare and file policy forms and insurance rates, for coverages effected by this act." 40 P.S. §1009.504-(a). Moreover, the Unfair Insurance Practices Act, 40 P.S. §§1171.1-.15 (Purdon's Supp. 1981), also regulates the alleged activities of the Defendants. This law prohibits unfair methods of competition and unfair or deceptive practices in the business of insurance, which include, in part:

> (4) *Entering into any agreement to commit, or by any concerted action committing, any act or boycott, coercion or intimidation* resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance.
>
> . . .
>
> (10) Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:
>
> (i) Misrepresenting pertinent facts or policy or contract provisions relating to coverages at issue.
>
> . . .
>
> (vi) *Not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in*

which the company's liability under the policy has become reasonably clear.

(vii) Compelling persons to institute litigation to recover amounts due under an insurance policy by offering substantially less than the amounts due and ultimately recovered in actions brought by such persons.

40 P.S. §1171.5 (emphasis added). *See Steinberg v. Guardian Life Insurance Co. of America*, 486 F. Supp. 122, 124 (E.D. Pa. 1980); *Black v. Nationwide Mutual Insurance Co.*, 429 F. Supp. 458 (W.D. Pa. 1977), *aff'd*, 571 F.2d 571 (3d Cir. 1978). *See also* 7 Von Kalinowski, Antitrust Laws and Trade Regulation, §47.02[2].

C. Agreement or Act to Boycott, Coerce or Intimidate

The final prerequisite to qualify for McCarran-Ferguson Act immunity is that the challenged activity is not an agreement or act to boycott, coerce or intimidate. 15 U.S.C. §1013(b). "A boycott cognizable under the antitrust laws is a concerted refusal to deal." *Quality Auto Body, Inc. v. Allstate Insurance Co.*, 660 F.2d 1195, 1206 (7th Cir. 1981), *appeal pending*. The standard by which we determine whether a boycott is alleged in the complaint is set forth in *St. Paul Fire & Marine Insurance Co. v. Barry*, 438 U.S. 531 (1978). In that case, the Court based its decision on the following factual allegations:

During the period in question, petitioners St. Paul Fire & Marine Insurance Co. (St. Paul), Aetna Casualty & Surety Co., Travelers Indemnity of Rhode Island (and two affiliated companies), and Hartford Casualty Co. (and an affiliated company) were the

> only sellers of medical malpractice insurance in Rhode Island. In April 1975, St. Paul, the largest of the insurers, announced that it would not renew medical malpractice coverage on an "occurrence" basis, but would write insurance only on a "claims made" basis. Following St. Paul's announcement, and in furtherance of the alleged conspiracy, the other petitioners refused to accept applications for any type of insurance from physicians, hospitals, or other medical personnel whom St. Paul then insured. The object of the conspiracy was to restrict St. Paul's policyholders to "claims made" coverage by compelling them to "purchase medical malpractice insurance from one insurer only, to wit defendant, St. Paul, and that [such] purchase must be made on terms dictated by the defendant, St. Paul." It is alleged that this scheme was effectuated by a collective refusal to deal, by unfair rate discrimination, by agreements not to compete, and by horizontal price fixing, and that petitioners engaged in "a purposeful course of coercion, intimidation, boycott and unfair competition with respect to the sale of medical malpractice insurance in the State of Rhode Island."

Id. at 534-35 (footnotes and citations omitted). The Court reviewed the legislative history of the McCarran-Ferguson Act and concluded that the term "boycott" should be construed in a "broad and unqualified" manner. *Id.* at 550. Accordingly, the Court determined that

> The conduct in question accords with the common understanding of a boycott. The four insurance companies that control the market in medical mal-

practice insurance are alleged to have agreed that three of the four would not deal on any terms with the policyholders of the fourth. As a means of ensuring policyholder submission to new, restrictive ground rules of coverage, St. Paul obtained the agreement of the other petitioners, strangers to the immediate dispute, to refuse to sell any insurance to its policyholders. "A valuable service germane to [respondents'] business and important to their effective competition with others was withheld from them by collective action." *Silver v. New York Stock Exchange*, 373 U.S. 341, 348-349, n. 5 (1963).

The agreement binding petitioners erected a barrier between St. Paul's customers and any alternative source of the desired coverage, effectively foreclosing all possibility of competition anywhere in the relevant market. This concerted refusal to deal went well beyond a private agreement to fix rates and terms of coverage, as it denied policyholders the benefits of competition in vital matters such as claims policy and quality of service. Cf. *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 55 (1977). St. Paul's policyholders became the captives of their insurer. In a sense the agreement imposed an even greater restraint on competitive forces than a horizontal pact not to compete with respect to price, coverage, claims policy, and service, since the refusal to deal in any fashion reduced the likelihood that a competitor might have broken ranks as to one or more of the fixed terms. The conduct alleged here is certainly not, in Senator O'Mahoney's terms, within the category of "agreements which can normally be made

> in the insurance business," 91 Cong. Rec. 1444 (1945) or "agreements and combinations in the public interests [sic] which can safely be permitted," *id.*, at 1486.

Id. at 552-53 (footnote omitted) (emphasis added). A proper reading of the *St. Paul Fire* case indicates that an agreement to fix terms of coverage is comparable to an agreement to fix prices, and thus, does not constitute a boycott. If an agreement to fix rates is exempt under the McCarran-Ferguson Act, as Plaintiff acknowledges, Plaintiffs' Brief Contra Defendants' Motion to Dismiss, pp. 22-23, then this court perceives no basis for reaching a contrary result with respect to an agreement to interpret the No-Fault Act provisions regarding work loss benefits in the same way.

Unlike the agreement in *St. Paul Fire,* the agreement alleged in the complaint does not constitute a refusal to deal with consumers.[8] Individuals in the market for no-

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[8] Plaintiffs' counsel has submitted three affidavits that he urges the court to consider in ruling upon the motions filed on behalf of Defendants. These affidavits are based upon "personal experience, hearsay comments from other plaintiff and defense counsel and insurance people, and from implication or inference after digesting numerous letters of rejection, preliminary objections and briefs filed by defense counsel and their insurance companies. . . ." Plaintiffs' Counsel's Affidavit, doc. no. 117, pp. 1-2. Defendants filed a motion to strike these affidavits for the reasons that such affidavits should not be considered in disposing of a motion to dismiss filed without supporting affidavits, the affidavits are speculative and not based upon personal knowledge, Plaintiffs' counsel would not be competent to testify about such facts in any hearing or trial and the filing of the affidavits by Plaintiffs' counsel constitutes a violation of the Code of Profes-

fault insurance were not limited with respect to the company from which they could purchase insurance coverage. Indeed, pursuant to the No-Fault Motor Vehicle Insurance Act, insurance companies had to provide coverage for work loss benefits. The alleged agreement or concerted action in this action only involved the interpretation of statutory language concerning the scope and extent of work loss benefits and attempts to obtain legislative and judicial approval of Defendants' interpretation. This wholly intra-industry agreement is akin to ratemaking. Such allegations do not constitute a concerted refusal to deal. Similarly, in *Quality Auto Body, Inc. v. Allstate Insurance Co.*, the court detected no boycott when "[t]he gravamen of Quality's complaint [did] not appear to be defendants' refusal to deal but rather defendants' refusal to pay more than the prevailing competitive price for labor and new parts." 660 F.2d at 1206. Moreover, policyholders continue to have "the benefits of competition in vital matters such as claims policy and quality of service." *St. Paul Fire & Marine Insurance Co. v. Barry*, 438 U.S. at 553.

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sional Responsibility. The parties submitted briefs with respect to the motion to strike. Although we agree with Defendants that affidavits submitted in connection with a motion must be based on personal knowledge and not information, belief or hearsay, *Gordon v. Watson*, 622 F.2d 120, 123 (5th Cir. 1980); *Orlik Ltd. v. Helme Products Inc.*, 427 F. Supp. 771, 778 (S.D. N.Y. 1977), we will nevertheless deny the motion to strike at this time because we find nothing in the affidavits that alters the court's decision regarding the issue of whether Defendants' conduct constitutes a boycott. If anything, the affidavits support the view that the alleged agreement only concerned the interpretation of a provision in the No-Fault Act and was not a refusal to deal.

Plaintiffs must also allege an injury of the type the antitrust laws were intended to prevent and that flows from Defendants' conduct to state a cause of action under the antitrust laws. *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489 (1977). They cannot transform what is basically a claim for violations of the No-Fault Motor Vehicle Insurance Act into an antitrust action merely by alleging a conspiracy between Defendants. *Sun Valley Disposal Co. v. Silver State Disposal Co.*, 420 F.2d 341, 343 (9th Cir. 1969); *Huron Valley Hospital, Inc. v. City of Pontiac*, 466 F. Supp. 1301, 1315-16 (E.D. Mich. 1979), *vacated on other grounds*, 666 F.2d 1029 (6th Cir. 1981). In *Anglin v. Blue Shield of Virginia*, 510 F. Supp. 75 (W.D. Va. 1981), the court concluded:

> While the Plans have unquestionably not offered to the plaintiff the coverage he seeks, that coverage is not offered to anyone by the Plans, because it is not a coverage written by the Plans. While comparison is odious in general, and dangerous in particular in an opinion, at least an analogy can be drawn between the situation at bar, and a suit against General Motors and Ford Motor Co. because neither will now sell a 1981 convertible automobile to the plaintiff customer. The fact that neither motor company now offers a convertible model in the marketplace is at least analogous to the fact that the Plans do not offer in the marketplace the coverage desired by the plaintiff here.

Id. at 80-81. In the case before this court, Defendants did not offer the coverage sought by Plaintiffs because their interpretation of the No-Fault Act did not require

such coverage. At least four lower state courts agreed with this position. While the state appellate courts held otherwise, they recognized the difficulty of divining the intent of the No-Fault Act and stated:

> At the outset we caution anyone who embarks on the high seas of Pennsylvania's No-Fault Motor Vehicle Insurance Act not to do so without a good compass, a knowledge of reefs and storms and plenty of food and water. Any attempt to choose an alternate route by land in an effort to unlock the secrets of the Act will encounter mazes of paths, pitfalls, underbrush and dead ends. In attempting to explain what should be the rudimentary "work loss" compensatory scheme, no less an experienced guide than the Pennsylvania Bar Institute was forced to conclude that the Act is impenetrable. In its book, Pennsylvania No-Fault Motor Vehicle Insurance Act—Practice Under the Act (Pub. No. 61, 1975), PBI unequivocally asserts:
>
> "It is not possible to determine with any degree of certainty the amount of work loss benefits required to be paid under the act. . . . The act is essentially incapable of execution since there are at least four possible interpretations of how 'basic loss benefits' for 'work loss' are calculated. None of the interpretations properly use all of the act and the provisions are apparently totally irreconcilable." *Id.* at 22.

Heffner v. Allstate Insurance Co., 265 Pa. Super. Ct. 181, 184, 401 A.3d 1160, 1161 (1979). Under such circumstances, this court discerns no antitrust violation. Indeed, Plaintiff Nye has initiated a class-action suit in assumpsit

against these Defendants in the Dauphin County Court of Common Pleas based upon the No-Fault Act and thus has recognized the actual nature of the claim. *Nye v. Erie Insurance Exchange*, No. 5349-S-79 (Dauphin Co. C.P.). Accordingly, the motions to dismiss will be granted.

Since the court has determined that it should grant the motions to dismiss, it is also convinced that the motions for judgment on the pleadings and summary judgment are meritorious.

> In considering a motion for judgment on the pleadings, this court is required to view the facts presented in the pleadings and the inference to be drawn therefrom in the light most favorable to the non-moving party. The motion will be granted only if the movant establishes that no material issue of fact awaits resolution and that he is entitled to judgment as a matter of law.

Alken v. Lerner, 485 F. Supp. 871, 873 (D. N.J. 1980) (citations omitted). Similarly, in considering the motion for summary judgment, this court must consider the pleadings, affidavits and other documents to determine whether they show that no genuine issue as to any material fact exists and that Defendants are entitled to judgment as a matter of law. Federal Rule of Civil Procedure 56. We have applied these legal principles to the motions before the court and have viewed the facts in a light most favorable to Plaintiffs. In addition, we have examined the stipulation of facts (doc. no. 121) agreed upon by Plaintiffs and the three Defendants who filed the summary judgment motion and which are deemed undisputed for purposes of that motion. Moreover, we considered the state-

ments in the affidavits of Plaintiffs' counsel. After such deliberation, the court has found no material issue of fact and concluded that on the basis of the McCarran-Ferguson Act, as previously explained, the motions for judgment on the pleadings and summary judgment should be granted.[9]

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[9] Although several Defendants have also raised the "state action" doctrine as a basis for dismissal of this action, we would deny such motions on that ground.

> *The threshold inquiry* in determining if an anticompetitive activity is state action of the type the Sherman Act was not meant to proscribe *is whether the activity is required by the State acting as sovereign.* Here we need not inquire further into the state-action question because it cannot fairly be said that the State of Virginia through its Supreme Court Rules required the anticompetitive activities of either respondent.
>
> . . .
>
> It is not enough that, as the County Bar puts it, anticompetitive conduct is "prompted" by state action; rather, *anticompetitive activities must be compelled by direction of the State acting as a sovereign.*

Goldfarb v. Virginia State Bar, 421 U.S. 773, 790-91 (1975) (emphasis added). This court cannot determine from the face of the complaint that the alleged activities are *required* by the State acting as sovereign.

Similarly, several Defendants rely upon the *Noerr-Pennington* doctrine to establish immunity from the alleged antitrust violations. This doctrine based upon decisions of the Supreme Court in *Eastern Railroad Presidents Conference v. Noerr Motor Fright, Inc.*, 365 U.S. 127 (1961), and *United Mine Workers v. Pennington*, 381 U.S. 657 (1965), sets forth "the general rule that lobbying and other similar concentrated efforts by businessmen to obtain legislative or executive action do not violate the antiturst laws, even though intended to eliminate competition or otherwise restrain trade." 7 Von Kalinowski, Antitrust Laws and Trade

IV. Conclusion

On the basis of the foregoing, the court concludes that the motion for summary judgment filed by Defendants Aetna Casualty & Surety Co., General Accident Group, and Hartford Insurance Group, the motions for judgment on the pleadings submitted by Defendants Allstate Insurance Co., CNA Insurance Co., Liberty Mutual Insurance Co., and Ohio Casualty Insurance Co., and the motions to dismiss filed by the remaining Defendants should be granted.

An appropriate order will be entered.

(s) R. DIXON HERMAN
R. DIXON HERMAN
United States District Judge

Dated: June 8th, 1982

Regulation, §46.04, pp. 46-35. Attempts to utilize administrative and judicial processes are also exempted under this doctrine. *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972). Of course, resort to such activities as a mere sham to cover anticompetitive conduct is not exempt. *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. at 511-15; *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. at 144. Nevertheless, having determined that the McCarran-Ferguson Act applies to the conduct alleged in the complaint, we decline to the rule upon Defendants' claims of *Noerr-Pennington* immunity, particularly since some of the conduct alleged in the complaint falls outside the scope of the doctrine and because Plaintiffs alleged that Defendants agreed upon "jointly conceived *spurious* legal grounds." (Emphasis added).

Memorandum
Order

ORDER

AND NOW, this 8th day of June, 1982, in accordance with the accompanying memorandum, IT IS HEREBY ORDERED, as follows:

1. Defendants' motion to strike the affidavits of Plaintiffs' counsel be, and the same is, denied;

2. Plaintiffs' motion to amend the complaint to add defendants be and is denied as moot;

3. Plaintiffs' motion for class action certification be and is denied as moot;

4. Plaintiffs' petition for a restraining order ancillary to class action be and is deemed withdrawn;

5. The motions for judgment on the pleadings filed by Defendants Allstate Insurance Co., CNA Insurance Co., Liberty Mutual Insurance Co., and Ohio Casualty Insurance Co. be, and the same are, granted;

6. The motion for summary judgment submitted by Defendants Aetna Casualty & Surety Co., General Accident Group, and Hartford Insurance Group be and is granted;

7. The motions to dismiss filed on behalf of the remaining Defendants be and are granted; and

8. The Clerk of Court is directed to enter judgment in favor of Defendants Aetna Casualty & Surety Co., Allstate Insurance Co., CNA Insurance Co., General Acci-

dent Group, Hartford Insurance Group, Liberty Mutual Insurance Co., and Ohio Casualty Insurance Co. and against Plaintiffs.

(s) R. DIXON HERMAN
R. DIXON HERMAN
United States District Judge

Office-Supreme Court, U.S.
FILED
OCT 11 1983
ALEXANDER L. STEVAS,
CLERK

No. 83-406

IN THE

Supreme Court of the United States

OCTOBER TERM, 1983

DANNY RAY GRANT, *et al.*,
Petitioners,

v.

ERIE INSURANCE EXCHANGE, *et al.*,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

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BRIEF FOR RESPONDENTS IN OPPOSITION

JOHN G. HARKINS, JR.*
MARJORIE E. GREENFIELD
MARION LITTMAN
PEPPER, HAMILTON & SCHEETZ
123 South Broad Street
2001 The Fidelity Building
Philadelphia, PA 19109

Attorneys for
The Aetna Casualty and Surety Company, and
Hartford Accident and Indemnity Company

JAMES K. THOMAS *
THOMAS & THOMAS
212 Locust Street
Harrisburg, PA 17108

Attorneys for
Commercial Union Insurance Company,
Donegal Mutual Insurance Company,
Nationwide Mutual Insurance Company,
Prudential Property and Casualty Insurance Company,
Royal Insurance Company and
Shelby Mutual Insurance Company

[Additional Attorneys Listed on Inside Cover]

WILSON - EPES PRINTING CO., INC. - 789-0096 - WASHINGTON, D.C. 20001

ALAN H. SILBERMAN *
WILLIAM T. BARKER
SONNENSCHEIN, CARLIN, NATH & ROSENTHAL
8000 Sears Tower
Chicago, Illinois 60606

Attorneys for
Allstate Insurance Company

CRAIG A. STONE *
GOLDBERG, EVANS & KATZMAN
P.O. Box 966
Harrisburg, PA 17108

RICHARD A. KLEINE
HOWREY & SIMON
1730 Pennsylvania Ave., N.W.
Washington, D.C. 20006

Attorneys for
American States Insurance Company,
Pennsylvania National Insurance Group,
Motorists Insurance Companies,
State Automobile Mutual Insurance Company and
United States Fidelity and Guaranty Company

STEVEN A. ASHER *
LABRUM & DOAK
700 IVB Building
1700 Market Street
Philadelphia, PA 19103

Attorneys for
General Accident Insurance Company
Ohio Casualty Insurance Company and
CNA Insurance Company

ALEXANDER KERR *
HUNT, KERR, BLOOM, HITCHNER O'BRIEN & CONRAD
Drexel Building
15th and Walnut Streets
Philadelphia, PA 19102

Attorneys for
Harleysville Insurance Company

PATRICK W. KITTREDGE *
KITTREDGE, KAUFMAN & DONLEY
121 South Broad Street
8th Floor
Philadelphia, PA 19107

Attorneys for
Employers Insurance of Wausau

H. LEE ROUSSEL *
MCNEES, WALLACE & NURICK
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108

Attorneys for
Erie Insurance Exchange
Firemen's Fund Insurance Companies and
Home Insurance Company

JOSEPH R. THOMPSON
LAW OFFICES OF JOSEPH R. THOMPSON
656 Public Ledger Building
Philadelphia, PA 19106

Attorneys for
Liberty Mutual Insurance Company

ALAN N. GAMSE *
JOHN H. MUDD
SEMMES, BOWEN & SEMMES
10 Light Street
Baltimore, MD 21202

Attorneys for
Maryland Casualty Company

ALBERT L. BRICKLIN *
THEODORE H. LUNINE
BENNETT, BRICKLIN & SALTZBURG
1800 IVB Building
1700 Market Street
Philadelphia, PA 19103

Attorneys for
Safeco Insurance Company

JOSEPH A. TATE *
CARL A. SOLANO
SCHNADER, HARRISON, SEGAL & LEWIS
Suite 3600
1600 Market Street
Philadelphia, PA 19103

Attorneys for
Insurance Company of North America

W. E. SHISSLER *
DAVID E. EATON
NAUMAN, SMITH, SHISSLER & HALL
P.O. Box 840
Harrisburg, PA 17108

Attorneys for
Lumbermens Mutual Casualty Company

A. GRANT SPRECHER *
OBERMAYER, REBMANN, MAXWELL & HIPPEL
14th Floor, Packard Building
15th & Chestnut Streets
Philadelphia, PA 19102

LUTHER E. MILSPAW, JR.
JAMESON & MILSPAW
100 Chestnut Street
Harrisburg, PA 17101

Attorneys for
Keystone Insurance Company

HENRY T. REATH *
JAMES J. MCCABE
ROBERT E. KELLY, JR.
DUANE, MORRIS & HECKSCHER
One Franklin Plaza
Philadelphia, PA 19102

Attorneys for
State Farm Mutual Automobile Insurance Company

RICHARD L. KEARNS *
CALDWELL, CLOUSER & KEARNS
P.O. Box 1164
Harrisburg, PA 17108

Attorneys for
Statesman Group

DANIEL I. BOOKER *
REED, SMITH, SHAW & MCCLAY
Union Trust Building
P.O. Box 2009
Pittsburgh, PA 15230

Attorneys for
Travelers Insurance Companies

* Designates Counsel of Record

QUESTIONS PRESENTED

1. Whether the District Court and the Court of Appeals correctly held that the McCarran-Ferguson Act (15 U.S.C. § 1011 *et seq.* (1976)) renders the Sherman Act inapplicable to a dispute between petitioner, claimant under a no-fault automobile insurance policy, and respondent insurers as to whether the Pennsylvania No-Fault Motor Vehicle Insurance Act and implementing regulations required payment of certain "work loss" benefits to petitioner.

2. Whether the District Court and Court of Appeals correctly held that an alleged agreement among insurers to adopt a uniform interpretation of the Pennsylvania No-Fault Motor Vehicle Act did not constitute a boycott within the meaning of the McCarran-Ferguson Act, where there was no refusal to deal by any insurer and Pennsylvania mandates uniformity among insurers in offering no-fault insurance coverages.

STATEMENTS REQUIRED BY RULE 28.1

This opposition to the petition for a writ of certiorari is filed jointly by the following respondents:

The Aetna Casualty and Surety Company
Allstate Insurance Company
American State Insurance Company
CNA Insurance Company
Commercial Union Insurance Company
Donegal Mutual Insurance Company
Employer's Insurance of Wausau
Erie Insurance Exchange
Fireman's Fund Insurance Companies
General Accident Insurance Company
Harleysville Insurance Company
Hartford Accident and Indemnity Company
Home Insurance Company
Insurance Company of North America
Lumbermens Mutual Casualty Company
Keystone Insurance Company
Liberty Mutual Insurance Company
Maryland Casualty Company
Motorists Insurance Companies
Nationwide Mutual Insurance Company
Ohio Casualty Insurance Company
Pennsylvania National Insurance Company
Prudential Property and Casualty Insurance Company
Royal Insurance Company
Shelby Mutual Insurance Company
State Automobile Mutual Insurance Company
State Farm Mutual Automobile Insurance Company
Statesman Group
Travelers Insurance Companies
United States Fidelity & Guaranty Company

Appendix A to this opposition contains a listing of respondents' parent companies, subsidiaries (except wholly owned subsidiaries) and affiliates as required by Rule 28.1 of this Court's Rules.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1983

No. 83-406

DANNY RAY GRANT, *et al.*,
Petitioners,

v.

ERIE INSURANCE EXCHANGE, *et al.*,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

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BRIEF FOR RESPONDENTS IN OPPOSITION

STATEMENT OF THE CASE

Respondents file this brief in opposition to the petition of Danny Ray Grant,[1] for a writ of certiorari to review the judgment of the United States Court of Appeals for the Third Circuit. That Court summarily affirmed the District Court's decision which rejected petitioner's attempt to convert a claim under the Pennsylvania No-Fault Motor Vehicle Insurance Act ("No-Fault Act") into an antitrust claim.

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[1] The notice of appeal from the judgment of the District Court was filed on behalf of petitioner Grant alone (R. 261a). Accordingly, the other original plaintiffs are not proper petitioners in this Court.

A. Nature of the Case

The No-Fault Act requires every insurer to include in all Pennsylvania automobile insurance policies certain forms of coverage for injuries suffered in automobile accidents, without regard to fault.[2] Insurers have no discretion with regard to payment of benefits prescribed by the No-Fault Act; however, the language of the Act is subject to multiple interpretations which have spawned numerous state court actions by claimants against insurers.[3]

Among the required No-Fault Act coverages is protection against "work loss." 40 Pa. Cons. Stat. Ann. § 1009.207(a) (Purdon Supp. 1983). The aspect of the extensive, ongoing litigation[4] between insurers and various claimants involved here is under what circumstances the No-Fault Act requires the payment of work loss benefits in the event of the death of an automobile accident victim ("post-mortem work loss").

Notwithstanding the pendency of numerous state court class actions involving post-mortem work loss, which include the plaintiffs in this case as named plaintiffs or

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[2] Pennsylvania No-Fault Motor Vehicle Insurance Act 40 Pa. Cons. Stat. Ann. §§ 1009.101-1009.701 (Purdon Supp. 1983).

[3] Benefits payable under the Act are recoverable in an action on the insurance policy. The No-Fault Act provides for interest on overdue benefits at the rate of 18% per annum, 40 Pa. Cons. Stat. Ann. § 1009.106(a)(2) (Purdon Supp. 1983), and for the award of attorneys' fees where benefits are withheld "without reasonable foundation." *Id.* at § 1009.107(3) (Purdon Supp. 1983).

[4] *See, e.g., Heffner v. Allstate Ins. Co.*, 265 Pa. Super. 181, 401 A.2d 1160 (1979), *aff'd*, 491 Pa. 447, 424 A.2d 629 (1980) (whether post-mortem work loss benefits were payable at all); *Reynolds v. Nationwide Mut. Ins. Co.*, 303 Pa. Super. 31, 449 A.2d 62 (1982) (whether benefits are payable to persons other than statutorily designated "survivors"); *Baker v. Aetna Casualty & Surety Co.*, 454 A.2d 1092 (Pa. Super. Ct. 1982), *petition for allowance of appeal* No. 44 (Pa. filed Jan. 31, 1983) (whether the decision in *Heffner* is retroactive).

class members, petitioner brought this action alleging that the defendant insurers had conspired with one another in violation of the antitrust laws to refuse payment of post-mortem work loss claims, to resist such claims, and to press allegedly "spurious" defenses to such claims. *Grant v. Erie Insurance Exchange*, 542 F. Supp. 457, 460 (M.D. Pa. 1982). The centrality of Pennsylvania insurance law to this case has always been perfectly clear. The District Court's opinion, 542 F. Supp. at 466, and the petition for certiorari itself demonstrate that the thrust of petitioner's purported antitrust action is simply to utilize the antitrust laws to supplant Pennsylvania's No-Fault Act and the comprehensive insurance regulatory scheme implemented by the Commonwealth.[5]

B. The Proceedings Below

At the outset of the action, all defendants filed dispositive motions (to dismiss, for judgment on the pleadings, or for summary judgment). The motions were granted by the District Court which held that the conduct alleged was within the business of insurance, governed by Pennsylvania's active and comprehensive regulatory scheme, and exempt from the antitrust laws by virtue of the McCarran-Ferguson Act, *Grant*, 542 F. Supp. at 461-65. The District Court also held that the conduct alleged involved neither a restraint of trade nor antitrust injury,[6]

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[5] Thus, the questions presented specially emphasize that the alleged conspiracy is claimed to be an "*agreement to violate* the Pennsylvania No-Fault Motor Vehicle Insurance Act" and not to provide or pay "*statutorily mandated* and *judicially required* decedent work loss benefit." (Petition, i.) The statement of the case again emphasizes the alleged "'*agreement to violate* the No-Fault Act.'" (Petition, 6.) The argument does likewise. (Petition, 7.) All of the typographical emphasis in these quotations is in the Petition.

[6] Under the Pennsylvania regulatory scheme where uniform no-fault coverage is statutorily mandated, there is no room for competition with respect to the benefits that must be paid under the

id. at 463, 466, but rather is simply a dispute under the law of contract. The Third Circuit affirmed "essentially for the reasons expressed by the District Court with regard to the McCarran-Ferguson Act."

REASONS FOR DENYING THE WRIT

None of the considerations governing review on certiorari, as set forth in this Court's rules, supports the grant of the requested writ. The District Court's and Third Circuit's opinions are wholly consistent with settled law under the McCarran-Ferguson Act and are not in conflict with any pertinent decisions of this Court or other Courts of Appeals. No issue of general or national importance is presented by the petition.

I. THE DISTRICT COURT AND THE COURT OF APPEALS CORRECTLY APPLIED THE McCARRAN-FERGUSON ACT

This is not a case in which insurers are alleged to have conspired with persons outside the insurance industry. Neither does it involve an attempt to affect prices in non-insurance markets. *Cf. Group Life & Health Insurance*

Act. Pennsylvania requires insurers to use only approved policy forms and to charge rates filed with the Department of Insurance and fixed in accordance with applicable law. No-Fault Act, 40 Pa. Cons. Stat. Ann. §§ 1009.109(a), 1009.109(b), 1009.209(b) (Purdon Supp. 1983), 40 Pa. Cons. Stat. Ann. 1009.204(b) (Purdon Supp. 1983); Insurance Act, § 354, 40 Pa. Cons. Stat. Ann. § 477b (Purdon Supp. 1983); Casualty and Surety Rate Regulatory Act, § 4(a), 40 Pa. Cons. Stat. Ann. § 1184(a) (Purdon Supp. 1983). To prevent deviation from the approved policy forms and rates, Pennsylvania forbids the insurer to give and the insured to accept "any rebate . . . or any favor of advantage . . . or any valuable consideration or inducement, *other than such as are specified in the policy.*" Insurance Department Act, § 636, 40 Pa. Cons. Stat. Ann. § 276 (Purdon 1971) (forbidding acceptance) (emphasis added); Insurance Company Act § 347, 40 Pa. Cons. Stat. Ann. 471 (Purdon 1971) (forbidding giving); Unfair Insurance Practices Act, 40 Pa. Cons. Stat. Ann. § 1171.5(a)(8) (Purdon Supp. 1983) (same).

Co. v. Royal Drug Co., 440 U.S. 205 (1979); *Union Labor Life Insurance Co. v. Pireno*, 102 S. Ct. 3002 (1982). Rather, it involves only allegations of an agreement between insurers to take certain positions regarding the interpretation of the Pennsylvania No-Fault Act (which all parties agree defined the insurers' contract obligation) and to urge the state courts and regulatory authorities to adopt the interpretations favored by the insurers.[7]

The District Court and Court of Appeals correctly found that the McCarran-Ferguson Act as interpreted by this Court exempts respondents' conduct from antitrust scrutiny. Under *Pireno*, 102 S. Ct. at 3009, three criteria must be considered in determining whether particular conduct is within the "business of insurance":

> *first*, whether the practice has the effect of transferring or spreading a policyholder's risk; *second*, whether the practice is an integral part of the policy relationship between the insurer and the insured; and *third*, whether the practice is limited to entities within the insurance industry. None of these criteria is necessarily determinative in itself . . .

Id. (Emphasis in original.)[8]

The central issue in the dispute between the parties, both here and in the state courts, is whether and when in death cases the No-Fault Act transfers to the insurer the insured's work loss risk. Definition of the risk to be transferred from the insured to the insurer is a crucial part of the "spreading and underwriting of a policy-

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[7] There are reasons beyond those adopted by the District Court for doubting that this conduct is or could be actionable under the federal antitrust laws. *See Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657 (1965); *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972).

[8] As they did below, plaintiffs ignore the second and third criteria (implicitly recognizing that neither factor supports their position at all) and rely solely on the first. Thus, contrary to the teachings of *Pireno*, they seek to treat that one factor as dispositive.

holder's risk." *Group Life & Health Insurance Co. v. Royal Drug Co.*, 440 U.S. 205, 211-12 (1979). It is on a par with and a necessary part of ratemaking, which is simply the process by which a price at which the insurer will assume the defined risk is determined. *See Quality Auto Body, Inc. v. Allstate Insurance Co.*, 1980-2 Trade Cas. (CCH) ¶ 63,507 at 76, 696-97 (N.D. Ill. 1980), *aff'd*, 660 F.2d 1195 (7th Cir. 1981), *cert. denied*, 455 U.S. 1020 (1982).

There can be no dispute that defining what risk will be transferred (and therefore which claims should be paid) is an "integral part of the relationship between the insurer and insured," a relationship which this Court has described as being "the core of the business of insurance." *Pireno*, 102 S. Ct. at 3008; *SEC v. National Securities, Inc.*, 393 U.S. 453, 460 (1969). There is no claim that the alleged conspiracy involved parties outside the insurance industry.

In *Pireno* and *Royal Drug* this Court drew a careful distinction between risk transfer and cost savings, holding that risk transfer is within the scope of the business of insurance, but that mere cost savings is not.[9] Petitioner, failing to recognize this distinction, argues that the conduct at issue, determination of whether the insured is entitled to a particular category of benefits, *i.e.*,

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[9] In *Royal Drug*, the Court distinguished the policy obligations from the pharmacy agreements used to cut the cost of carrying out those obligations.

> The fallacy of the petitioners' position is that they confuse the obligations of Blue Shield, under its insurance policies, which insure against the risk that policyholders will be unable to pay for prescription drugs during the period of coverage, and the agreements between Blue Shield and the participating pharmacies, which serve only to minimize the costs Blue Shield incurs in fulfilling its underwriting obligations.

Royal Drug Co., 440 U.S. at 213 (footnote omitted). *See Pireno*, 102 S. Ct. at 3010.

whether a risk was transferred under the policy, is "risk reduction." Petitioner mistakenly treats this "risk reduction" as a cost saving device and nothing more. Entitlement to an entire category of benefits was not the issue in either *Pireno* or *Royal Drug*. Instead, both were concerned with how much the insurer would pay to third parties who provided drugs or services to insurers.[10]

The second infirmity in petitioner's argument is that *Pireno* and *Royal Drug* do not hold that "all cost reduction" agreements are outside the business of insurance. The fact that defendants' alleged activities incidentally may reduce their cost does not mean that those activities are a "cost reduction device" within the meaning of *Pireno* and *Royal Drug*. The United States, as *amicus* in *Pireno*, pointed out that "the fact that conduct reduces insurer costs does not by itself place the conduct outside of the business of insurance." "Coverage of deductibles, underwriting exclusions, coinsurance factors and risk limitations", *inter alia*, reduce insurer cost by limiting the risk assumed by the insurer, yet also constitute part of the business of insurance both because they allocate risk and because they constitute part of the contractual agreement between insurer and insured. Brief for the United States as Amicus Curiae at 14 n.14, in *Pireno*.[11]

The Court of Appeals and the District Court correctly applied the law under *Pireno* and *Royal Drug* to the facts of this case. Furthermore, this case, grounded as it is in interpretation of the Pennsylvania No-Fault Act, presents no question of importance to future cases. Accordingly, review by this Court would serve no purpose.

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[10] In the present case, there is no claim that the alleged conspiracy involved parties outside the insurance industry.

[11] The United States also noted that the insurer's interpretation and enforcement of its insurance policy were not at issue in *Pireno*, Brief for the United States as Amicus Curiae at 15. Here, in contrast, policy interpretation and interpretation of the No-Fault Act is the essence of the case.

II. THE DECISIONS OF THE COURTS BELOW, REFUSING TO CHARACTERIZE THE ALLEGED CONDUCT AS A "BOYCOTT," DO NOT CONFLICT WITH ANY DECISION OF THIS COURT OR THE COURTS OF APPEALS

As used in antitrust law, the term "boycott" refers to an agreement among competitors to refuse to trade with a particular person for the purpose of altering competition between the parties. *See St. Paul Fire & Marine Insurance Co. v. Barry*, 438 U.S. 531 (1978) (agreement among insurers not to trade with former customers of one insurer in order to coerce them to accept the type of policy which that insurer sought to sell).

This case lacks the essential features of a boycott. Here, there is no allegation that defendants refused to trade with anyone (or agreed to do so). Instead, what petitioner asserts is that defendants did trade and specifically undertook obligations which they have failed to perform. Whatever the merits of petitioner's contentions regarding defendants' obligations, the alleged illegal conduct involves no refusal to deal, concerted or otherwise. Statutorily mandated uniformity displaced any possible competition regarding the required coverage. Whatever that coverage was, defendants had no choice but to sell it. Consequently, the essential elements of a boycott are absent. There was no area of competition to be affected by the alleged conspiracy and no refusal to trade.[12]

---

[12] In *Barry* it was also noted that a "boycott" entails a refusal to trade for the purpose of "pressuring a party with which one has a dispute" to accede to the position of the boycotting party. 438 U.S. at 541. But there is no allegation (and no conceivable basis for one) that the denial of benefits alleged in the Complaint is intended to pressure insureds to accede to the defendants' position in any dispute. To the contrary, the dispute is precisely over whether the benefits are due at all. By denying these benefits, the insurers are merely refusing to accede to the insureds' position in that dispute. Whatever might be the case were benefits withheld to pressure insureds to accede to defendants' position in some collateral dispute (over premiums, perhaps), the concept of "boycott" is simply irrelevant to the conduct alleged.

Again, the courts below have correctly applied settled law to a unique factual situation. No purpose would be served by review in this Court.

CONCLUSION

For these reasons, the petition for a writ of certiorari should be denied.

Respectfully submitted,

JOHN G. HARKINS, JR.*
MARJORIE E. GREENFIELD
MARION LITTMAN
PEPPER, HAMILTON & SCHEETZ
123 South Broad Street
2001 The Fidelity Building
Philadelphia, PA 19109

Attorneys for
The Aetna Casualty and Surety Company, and
Hartford Accident and Indemnity Company

ALAN H. SILBERMAN *
WILLIAM T. BARKER
SONNENSCHEIN, CARLIN, NATH & ROSENTHAL
8000 Sears Tower
Chicago, Illinois 60606

Attorneys for
Allstate Insurance Company

CRAIG A. STONE *
GOLDBERG, EVANS & KATZMAN
P.O. Box 966
Harrisburg, PA 17108

RICHARD A. KLEINE
HOWREY & SIMON
1730 Pennsylvania Ave., N.W.
Washington, D.C. 20006

Attorneys for
American States Insurance Company,
Pennsylvania National Insurance Group,
Motorists Insurance Companies,
State Automobile Mutual Insurance Company and
United States Fidelity and Guaranty Company

JAMES K. THOMAS *
THOMAS & THOMAS
212 Locust Street
Harrisburg, PA 17108

Attorneys for
Commercial Union Insurance Company,
Donegal Mutual Insurance Company,
Nationwide Mutual Insurance Company,
Prudential Property and Casualty Insurance Company,
Royal Insurance Company and
Shelby Mutual Insurance Company

PATRICK W. KITTREDGE *
KITTREDGE, KAUFMAN & DONLEY
121 South Broad Street
8th Floor
Philadelphia, PA 19107

Attorneys for
Employers Insurance of Wausau

H. LEE ROUSSEL *
MCNEES, WALLACE & NURICK
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108

Attorneys for
Erie Insurance Exchange
Firemen's Fund Insurance Companies and
Home Insurance Company

STEVEN A. ASHER *
LABRUM & DOAK
700 IVB Building
1700 Market Street
Philadelphia, PA 19103
Attorneys for
General Accident Insurance Company
Ohio Casualty Insurance Company and
CNA Insurance Company

ALEXANDER KERR *
HUNT, KERR, BLOOM, HITCHNER O'BRIEN & CONRAD
Drexel Building
15th and Walnut Streets
Philadelphia, PA 19102
Attorneys for
Harleysville Insurance Company

JOSEPH A. TATE *
CARL A. SOLANO
SCHNADER, HARRISON, SEGAL & LEWIS
Suite 3600
1600 Market Street
Philadelphia, PA 19103
Attorneys for
Insurance Company of North America

W. E. SHISSLER *
DAVID E. EATON
NAUMAN, SMITH, SHISSLER & HALL
P.O. Box 840
Harrisburg, PA 17108
Attorneys for
Lumbermens Mutual Casualty Company

A. GRANT SPRECHER *
OBERMAYER, REBMANN, MAXWELL & HIPPEL
14th Floor, Packard Building
15th & Chestnut Streets
Philadelphia, PA 19102

JOSEPH R. THOMPSON
LAW OFFICES OF JOSEPH R. THOMPSON
656 Public Ledger Building
Philadelphia, PA 19106
Attorneys for
Liberty Mutual Insurance Company

ALAN N. GAMSE *
JOHN H. MUDD
SEMMES, BOWEN & SEMMES
10 Light Street
Baltimore, MD 21202
Attorneys for
Maryland Casualty Company

ALBERT L. BRICKLIN *
THEODORE H. LUNINE
BENNETT, BRICKLIN & SALTZBURG
1800 IVB Building
1700 Market Street
Philadelphia, PA 19103
Attorneys for
Safeco Insurance Company

HENRY T. REATH *
JAMES J. MCCABE
ROBERT E. KELLY, JR.
DUANE, MORRIS & HECKSCHER
One Franklin Plaza
Philadelphia, PA 19102
Attorneys for
State Farm Mutual Automobile Insurance Company

RICHARD L. KEARNS *
CALDWELL, CLOUSER & KEARNS
P.O. Box 1164
Harrisburg, PA 17108
Attorneys for
Statesman Group

DANIEL I. BOOKER *
REED, SMITH, SHAW & MCCLAY
Union Trust Building
P.O. Box 2009
Pittsburgh, PA 15230
Attorneys for
Travelers Insurance Companies

LUTHER E. MILSPAW, JR.
JAMESON & MILSPAW
100 Chestnut Street
Harrisburg, PA 17101
Attorneys for
Keystone Insurance Company

* Designates Counsel of Record

APPENDIX

APPENDIX

This Appendix sets forth for each respondent the listing of parents, subsidiaries and affiliates as required by Rule 28.1.

The Aetna Casualty and Surety Company

The Aetna Casualty and Surety Company's parent is Aetna Life and Casualty Company. The Aetna Casualty and Surety Company owns more than twenty percent of the following partnerships: Rahn Properties, Camballin Farms, Taas Associates, Square 254 General Partnership, Ponderosa Homes, ABP Associates Limited, Portside Properties Limited, 1090 Vermont Avenue N.W. Associates Limited Partnership, and Allis-Chalmers Leasing Partnership. It also owns more than twenty percent of the following joint ventures: Mariner Brookhollow Joint Venture, Peacock Gap Associates, and Ponderosa/Flintridge Associates, and more than twenty percent of the following corporation: Aegen International, Inc. Through a wholly owned subsidiary, The Aetna Casualty and Surety company also owns more than twenty percent of the following joint ventures: Lewis Energy Corporation Joint Exploration Program and Huffco U.S. Exploration Program. Aetna Life and Casualty Company or its other subsidiaries own more than twenty percent of the following corporations: Aetna Life and Casualty Limited (Australia), Compania de Seguros Generales Aetna Banchile S.A. (Chile), Compania de Fondos de Pensioners Santa Maria S.A. (Chile), Geografrance S.A., Petroleum Drilling Services Columbia Pty. Ltd. (Cayman Islands), Geosource South Africa (Pty.) Limited, Geosource Argentina S.A. Geosource Nigeria Limited, Petroleum Drilling Services (Australia) Pty. Ltd., Ucamer Shipping and Transportation Company (Cayman) Ltd., Southern Cross Orchards (New Zealand), CS Development Corporation, Landex Properties Limited (British Columbia), Marex Properties Limited (Canada Federal),

1001 Boulevard de Maisonneuve O., Inc. (Canada), Cottonwood Corner Shopping Center, Inc. (British Columbia), Fortress Mountain Resorts, Ltd. (Canada), Aetna Income Shares, Inc., Aetna Variable Fund, Inc., and Samual Montagu & Co. (Holdings) Limited (United Kingdom). Aetna Life and Casualty Company or its subsidiaries also own more than twenty percent of the following partnerships and joint ventures: Local Digital Distribution Company, Hartford Center Hotel Partnership, Hartford Sports Cable Company, Aetna Telecommunications Consultants, Geosource Epig Service Company Ltd. (Sudan), Geosource Saudi Arabia Co., Ltd., GH Industrial Services Ltd. (Saudi Arabia), Geosismo S.A. (Peru), Romgeo Exploration Co. Ltd. (Cayman Islands), Valvulas Crosby Industria e Comercio Ltda (Brazil), ARB Properties, Bayhill Three Associates, East Cactus Plaza Associates, Friday Associates, Koll Center Newport A, Koll Center Newport Number 1, Koll Center Newport Number 2-3, Koll Center Newport Number 4, Koll Center Newport Number 6, Koll Center Newport Number 7, Koll Center Newport Number 8, Koll Center Newport Number 9, Koll Center Newport Number 10, Koll Center Newport Number 11, North Park Plaza Associates, Pantano Associates, Parkway Central Plaza Ltd., 1670 Broadway, St. Vincents Mall, Village Plaza Associates, Baltimore Fashion Park Associates, Lincoln Center, Chris-Town Village Associates, Crossroads Shopping Center, Edina Office Center Joint Venture, Empire Park Associates, Empire Park IV Associates, Golden State Associates, Hayward Industrial Park Associates II, Hillcrest Associates, Kemble Associates, Lincoln Benicia III Associates, Meridian Associates, Silverada Mall, TRI Freeways Associates, Tatum Associates, Washington Plaza, Westwood Mall Associates, Wit Associates, O'Hare Center Venture, Lincoln Oakland Coliseum I&II Associates, Yellow Brick Road, RBA II Associates, Southwest Financial Plaza Annex, Corporate Park Northwest Associates, Royal Commerce Center As-

sociates, Hayward Industrial Park Associates III, Southwest Financial Plaza, 160 Acre Tract Venture, B.K. Urban Venture, City Place Venture, Hodges Urban Venture, Marban, Marriott Urban Boston Venture, Westglenn Venture, One Logan Square Associates, Deerpath Atrium Center Associates, Montbello Commercial Venture, Montbello Community Venture, 900 North Michigan Venture, Oakbrook-Urban Venture, U-C Associates, Ritz-Carlton Water Tower Venture, 333 Wacker Drive Venture, Streamwood Industrial Properties, Urban Miller-Davis Quincy Venture, Urban Miller-Davis Carlsbad Venture, Westban Hotel Venture, Merritt-Urban II Venture, 200 S. Wacker Avenue, 841 Chestnut Partnership, Quincy Investment Company, Carlsbad Research Center, Denver Tech Center Associates, DTC Shopping Center Associates, DTC Associates, Inland-Hussinger Joint Venture, Inland-Wilson Joint Venture, Lawrence Street Associates, UIDC Miller-Davis City Center Venture, Urban Four-Seasons Hotel Venture, Houston Center Athletic Club Venture, Aspen Skiing Company, Pebble Beach Company, Studio Properties Company, Am Co Ho Company, Crossroads Limited, Koll Business Centers-Bay Area, Koll Business Centers-Orange, Koll Business Centers-San Diego, Koll Business Centers-San Diego #2, Koll Business Centers-Seattle, Northway Square Phase One, Bayhill V, Valley Plaza Limited, Koll Income Properties.

Allstate Insurance Company

Allstate's parent corporation is Sears, Roebuck and Co. Allstate's affiliates and subsidiaries (except for its wholly owned subsidiaries, the wholly owned subsidiaries of Sears, Roebuck and Co. and the wholly owned subsidiaries of their subsidiaries and wholly owned subsidiaries) are:

Allstate Insurance Company of Canada

Allstate Life Insurance Company of Canada

The Armstrong Rubber Company

Copolymer Rubber and Chemical Corporation

DeSota Inc.

Kellwood Company

Roper Corporation

Sears, Roebuck de Mexico, S.A. de C.V.

Simpson-Sears Limited

Inglis Limited

Simpson-Sears Acceptance Co., Ltd.

Simpson-Sears Properties Ltd.

Universal-Rundle Corp.

"Affiliates" listed above are those which Allstate included as of December 31, 1981 in Item 2 of the Registration Statement which Allstate is required to file in its domiciliary state to comply with the Insurance Holding Company Systems Act, Ill. Ann. Stat. Ch. 73 § 743.1 *et seq.* Affiliates whose assets are not greater than one-half (½) of 1% of Allstate's assets are not included in Item 2 of the Registration Statement. An Investment Schedule listing affiliates whose assets are less than one-half of 1% of Allstate's assets is available upon request.

American State Insurance Company

The parent of American State Insurance Company is Lincoln National Corporation. The only subsidiary of American State Insurance Company which is not wholly owned is American State Life Insurance Company.

CNA Insurance Company

The parent of CNA Insurance Company is CNA Financial Corporation.

Commercial Union Insurance Company

The parent of Commercial Union Insurance Company is Commercial Union Corp. which is a wholly owned subsidiary of Commercial Union Assurance, Ltd.

Donegal Mutual Insurance Company

Donegal Mutual Insurance Company has no related companies which are not wholly owned.

Employer's Insurance of Wausau

Employee's Insurance of Wausau has no related companies which are not wholly owned.

Erie Insurance Exchange

Erie Insurance Exchange is not a corporation. Erie Insurance Exchange is managed by Erie Indemnity Company, attorney-in-fact for Erie Insurance Exchange. The only subsidiary or affiliate of Erie Indemnity Company, other than wholly owned subsidiaries, is Erie Family Life Insurance Company.

Fireman's Fund Insurance Company

All of the voting securities of Fireman's Fund Insurance Company are held by Fireman's Fund/American Express, Inc. All of the non-voting securities of Fireman's Fund Insurance Company are held by American Express Insurance Holdings, Inc. Both of these entities are wholly owned subsidiaries of the American Express Company.

The following list includes the names of all subsidiaries and affiliates of the entities set forth above other than the wholly owned subsidiaries of any of them or their wholly owned subsidiaries:

American Express de Brasil S.A. Turismo

American Express D'Espana, S.A.

American Express Argentine, S.A.

American Express (Thai) Co., Ltd.

Travelers Cheque Associates Limited

Societe Francoise du Cheque de Voyage

Jetamex Limited

Egyptian American Bank

Amex-Biria International, S.A.

Ultramex S.A. Arrendamento Mercantil

Arrendadora Commercial Amex S.A. de C.V.

Witan Enterprises, Inc.

Woodmere Enterprises, Inc.

AMP—Amex Leasing Limited

Pacific Bank Berhad

HMB Subwork

Trade Investment Shopping Centre, Ltd.

TDB Distribuidora de Titulos E. Valores Mobiliarios, Ltda.

Republic Leasing do Brazil S.A. Arrendamento Mercantil

Sociedad del Desarrollo Mercantil Limitada

Hethersett Ltd.

Warner Amex Cable Communications, Inc.

a). Warner Amex Cable Communications of Reston, Inc., Delaware Houston Cable T.V., Inc.

b). Warner Amex Cable Communications of Cincinnati, Inc.

c). Warner Cable Corp. of Pittsburgh

d). Warner Amex Cable Communications of Lynn, Inc.

e). Warner Amex Cable Communications of St. Louis, Inc.

f). Warner Amex Cable Communications of Austin/Scottsburg, Inc.

g). Warner Amex Cable Communications of Harris County, Inc.

h). Warner Amex Securities System of Texas, Inc.

i). Warner Arizona CATV

j). Garden State Micro Relay, Inc.

General Accident Insurance Company

The parent of General Accident Insurance Company is General Accident Fire and Life Assurance Corporation p.l.c.

Harleysville Insurance Company

Harleysville Insurance Company has no related companies which are not wholly owned.

Hartford Accident and Indemnity Company

Hartford Accident and Indemnity Company's parent is Hartford Fire Insurance Company, which is more than ninety-nine percent owned by International Telephone and Telegraph Corporation ("ITT"). Hartford Accident and Indemnity Company owns in excess of ninety-five percent of The Hartford Money Market Fund, Inc. ITT or its subsidiaries also own more than twenty percent of the common stock of the following publicly-traded domestic corporations: Piper Jaffray, Inc. (25 percent) and Wheat First Securities, Inc. (25 percent).

Home Insurance Company

All of the voting securities of Home Insurance Company are held and owned by the Home Group, Inc. The Home Group, Inc. is a wholly owned subsidiary of City Investing Company.

The following list includes the names of all subsidiaries and affiliates of the entities set forth above other than the wholly owned subsidiaries of any of them or their wholly owned subsidiaries.

N.V.D.P.G.S.A. (Belgium)

Photofinishing Holding International B.V.

Rassini Rheem, S.A. de C.V.

Productos Tubulares Monclova, S.A.

Rheem Blagden Limited

Rheem (Far East) Pte. Ltd.

Rheem Metalurgies S.A.

Rheem Radi S.p.A.

Rheem South Africa (Pty.) Limited

Saiar Sociedad Anonima

Industria y Commercial de Aceros Rheem

TMT N.V.

GDV, Inc.

Home Lloyd's Insurance Company of Texas

Insurance Company of North America

Insurance Company of North America is a wholly owned subsidiary of INA Financial Corporation, a wholly owned subsidiary of INA Corporation. In turn, INA Corporation is a wholly owned subsidiary of CIGNA Holdings, Inc., which is a wholly owned subsidiary of CIGNA Corporation, the ultimate parent company and a publicly traded company. Insurance Company of North America's subsidiaries (except thirty-three (33) wholly owned subsidiaries) and affiliates (see 26 U.S.C. Sections 1501, 1502, 1504; Treas. Reg. Section 1.1502-1) are:

Compagnie Financier INA (France)

Campagnie Nouvelle d'Assurance (France)

INA International Investors, Ltd. (Pennsylvania)

La Nouvelle, S.A. (France)

Societe Civile Immobiliere Turina (France)

In addition to the foregoing, the parent companies of Insurance Company of North America have varying ownership interest in almost four hundred other insur-

ance, insurance related, health care, real estate, and investment companies, both domestic and foreign, including Connecticut General Corporation, Paine Webber Incorporated (approximately a 20% interest), and their respective subsidiaries and affiliates. Should the Court desire listings of any of these companies, including the subsidiaries and affiliates of Paine Webber Incorporated, Insurance Company of North America will supplement its listing.

Lumbermans Mutual Casualty Company

The following are subsidiaries (except wholly owned subsidiaries) and affiliates of Lumbermans Mutual Casualty Company:

Central Mortgage Company

National Agents Service Company Inc.

Kemper Corporation

American Manufacturers Mutual Insurance

Fidelity Life Association

Kemper County Mutual Insurance Company

Kemper Lloyds Insurance Company

Keystone Insurance Company

The following are subsidiaries and affiliates of Keystone Insurance Company:

Keystone Automobile Club

Keystone Insurance Company

Keystone Worldwide Travel

Key-pac Realty Corp.

Liberty Mutual Insurance Company

Liberty Mutual Insurance Company and its affiliate Liberty Mutual Fire Insurance Company are associated with the following:

Liberty Life Assurance Company of Boston

Liberty International Agency, Inc.

Liberty Insurance Corporation

Liberty Northwest Insurance Corporation

Helmsman (Underwriting) Ltd.

Liberty Mutual Insurance Company (Massachusetts) Ltd.

Liberty Mutual Management (Bermuda) Ltd.

Liberty Mutual (Bermuda) Ltd.

Berkeley Management Corporation

Helmsman Management Services, Inc.

Maryland Casualty Company

The parent company of Maryland Casualty Company is American General Corporation.

Affiliates and subsidiaries (other than wholly owned subsidiaries) of Maryland Casualty Company are:

AGC Life Insurance Company

Albany Life Assurance Co., Ltd.

Albany Life Group Services Limited

Albany Pension Managers & Trustees Limited

Alpine Insurance Service

American General Assurance Group (U.K.), Limited

American General Contractual Services, Inc.

American General Exchange Corporation

American General Investment Corporation

American General Life Insurance Company

American General Life Insurance Company of Delaware

American General Life Insurance Company of New York

American General Life Insurance Company of Oklahoma

American General Lloyds

American General Mortgage Company

American General Realty Company

American General Securities Incorporated

American General Services Company

American General Shareholders Corporation

Atlas Realty Company

California-Western States Life Insurance Company

Cal-Western Securities Company

CFC Investment, Inc.

Credithrift Computer Services Corp.

Credithrift Financial, Inc.

Credithrift Financial Corporation

Evansville Morris Plan Co., Inc.

Fidelity Investment, Inc.

Financial Life Assurance Company of Canada

Grand Ole Opry Tours, Incorporated

Great Falls Insurance Company

Great State Corporation

Great State Financial Corporation

Great State Service Corporation

GS Consultants, Inc.

Guardsman Life Insurance Company

Robert Hampson, Inc.

Hawaiian Life Insurance Company, Ltd.

Intercal Company

Intereal Company

Jovencal Realty, Incorporated

Jovenlou Corporation
Joventex Corporation
Joventucky Corporation
Knickerbocker Corporation
Lake Howell Corporation
Life and Casualty Insurance Company of Tennessee
Lincoln American Corporation
Lincoln American Life Insurance Company
Merit Life Insurance Company
Morlan Pacific Corporation
The Morris Plan Company of California
The National Life and Accident Insurance Company
The National Property Owners Insurance Company
NLT Corporation
NLT Marketing Services Corporation
National Public Service Insurance Company
Opryland U.S.A. Talent Agency, Incorporated
Pioneer Security Life Insurance Company
Rylis Realty Company
South Padre Land Company
State Savings and Loan Association
Tennessee JV Corporation
Tennessee Vintage Corporation
Thrift, Incorporated
The Variable Annuity Life Insurance Company
The Variable Annuity Marketing Company
Westerlic Corporation, Ltd.
WSM, Incorporated
Yosemite Insurance Company

Motorists Insurance Companies

The parent of Motorists Insurance Companies is Motorists Mutual Insurance Company and the affiliates are:

MICO Insurance Company

Motorists Building Corporation

Motorists Agency Service, Inc.

Nationwide Mutual Insurance Company

Nationwide Mutual Insurance Company has no related companies which are not wholly owned.

Ohio Casualty Insurance Company

The parent of Ohio Casualty Insurance Company is Ohio Casualty Corporation.

Pennsylvania National Insurance Company

The following are wholly owned affiliates of Pennsylvania National Insurance Company:

Penn National Insurance Company

Penco Consumer Discount, Inc.

Inservo Insurance Service

ESL, Inc.

Prudential Property and Casualty Insurance Company

The parent of Prudential Property and Casualty Insurance Company is Prudential Insurance Company.

Royal Insurance Company

The parent of Royal Insurance Company is Royal Group, Inc.

Shelby Mutual Insurance Company

Shelby Mutual Insurance Company has no related companies which are not wholly owned.

State Automobile Mutual Insurance Company

State Automobile Mutual Insurance Company has no related companies which are not wholly owned.

State Farm Mutual Automobile Insurance Company

State Farm Mutual Automobile Insurance Company has no related companies which are not wholly owned.

Statesman Group

Statesman Group has no parent company, subsidiaries or affiliates.

Travelers Insurance Companies

The Travelers Corporation is the ultimate parent company of The Travelers Insurance Companies herein (including The Travelers Indemnity Company, The Phoenix Insurance Company, The Charter Oak Fire Insurance Company, The Travelers Indemnity Company of Rhode Island, The Travelers Indemnity Company of Illinois and The Travelers Indemnity Company of America. It is also the immediate parent of The Travelers Indemnity Company and The Travelers Indemnity Company of Illinois.).

The Phoenix Insurance Company is the immediate parent of The Travelers Indemnity Company of Rhode Island and The Travelers Indemnity Company of America. The Travelers Indemnity Company is the immediate parent of The Charter Oak Fire Insurance Company and The Phoenix Insurance Company. The affiliates of The Travelers Insurance Companies are as follows:

THE TRAVELERS INSURANCE COMPANIES

The Travelers Corporation

The Travelers Insurance Company

The Travelers Indemnity Company
The Phoenix Insurance Company
The Charter Oak Fire Insurance Company
The Travelers Life Insurance Company
The Travelers Indemnity Company of Rhode Island
The Travelers Indemnity Company of Illinois
The Travelers Indemnity Company of America
The Travelers Insurance Company of Illinois
The Travelers Life and Annuity Company
The Constitution State Insurance Company
The Travelers Pension and Life Insurance Company

OTHER TRAVELERS INSURANCE COMPANIES

Travcan Limited
Travelers Life Insurance Company of Canada
Travelers Indemnity Company of Canada
Travelers Canada Corp.
Travelers Life Insurance Company Overseas Limited (formerly CALICO)
The Travelers Corporation of Bermuda Limited
Travelers Life Insurance Company (Overseas) Ltd. (The)
Terra Nova Insurance Company, Limited
Keystone Provident Life Insurance Company
Keystone Massachusetts Life Insurance Company
The Travelers Reinsurance Company of Bermuda Limited
The Travelers Lloyds Insurance Company
Travelers Corporation (U.K.) Ltd.

GENERAL BUSINESS SUBSIDIARIES—
SECURITIES ACTIVITIES

The Travelers Investment Management Co.
Travelers Equities Sales, Inc.
The Massachusetts Companies, Inc.
MassCo Investment Management Corporation
Fiduciary Investment Company, Inc.
Keystone Custodian Funds, Inc.
Keystone Securities Co., Inc.
Keystone Massachusetts Distributors, Inc.
H.C. Copeland and Associates, Inc.
H.C. Copeland and Associates Equities, Inc.
Intangible Marketing, Inc.
Securities Settlement Corporation
Keystone Provident Financial Services Corp.

GENERAL BUSINESS SUBSIDIARIES
INSURANCE AND NON-INSURANCE BUSINESS

The Prospect Company
Prospect Management Services Company (Del.)
The Plaza Corporation
Auger Insurance Agency, Inc.
E. Broox Randall & Sons, Inc.
William F. O'Connor, Inc.
Carpenter Brothers Insurance Agency, Inc.
Hilstead Insurance Agency, Inc.
William F. Connelly, Jr. Incorporated
Travelers General Agency of Hawaii, Inc.
The Arthur B. Fowler Agency, Inc.
Exsure, Incorporated

Joseph A. Wynne Agency
Charles A. Boyer Inc.
Syd Tozier & Associates, Insurance Brokers, Inc.
Cornutt & McIntire Insurance, Inc.
Constitution State Management Company
Constitution State Service Company
The Travelers Syndicate #1, Inc.
Derby Advertising, Inc.
Constitution Plaza, Inc.
The Travelers Marine Corporation
E.B.S., Inc.

REAL ESTATE SUBSIDIARIES AND ASSOCIATED COMPANIES

Panther Valley, Inc.
Panther Valley Service, Inc.
Pequest Sewer Company
Pequest Water Company
Panther Valley County Club, Inc.
Keystone Real Estate Company, Inc.
Prospect Nebraska Land Holding Company, Inc.
89th & York Avenue Corporation
TMC Realty Partners, Inc.
Travelers Income Properties—I
London & Hartford Corporation
Prospect Holdings, Inc.

SPONSORED MUTUAL FUNDS, VARIABLE ANNUITIES AND SIMILAR INVESTMENT ACCOUNTS

Freedom Fund (The)
Keystone Tax Free Fund

Travelers Equities Fund, Inc.
The Travelers Fund A for Variable Annuities
The Travelers Fund A-1 for Variable Annuities
The Travelers Fund B for Variable Contracts
The Travelers Fund B-1 for Variable Contracts
Travelers Variable Annuity Account V-1
Massachusetts Fund
Master Reserves Trust
Keystone International Fund, Inc.
Keystone Liquid Trust
Keystone Custodian Fund—Series B-1
Keystone Custodian Fund—Series B-2
Keystone Custodian Fund—Series B-4
Keystone Custodian Fund Series K-1
Keystone Custodian Fund Series K-2
Keystone Custodian Fund Series S-1
Keystone Custodian Fund Series S-3
Keystone Custodian Fund Series S-4
Keystone Accumulation Plans
Keystone Money Trust
The Travelers Fund MM for Variable Annuities
Keystone Bond Trust
Keystone Stock Trust
Money Market/Options Investments, Inc.
KMA Variable Account
Master Reserves Tax Free Trust
Aggressive Stock Trust
Managed Assets Trust
Capital T Money Fund

Investment Bond Trust
Capital T Tax Free Fund
Master Reserves Income Fund
Keystone Massachusetts Group, Inc.

JOINT REAL ESTATE VENTURES

Yorba Linda II
Panther Valley Ltd.
Dana Point Marina Company
Oak Creed Apartments
West Village
O'Hare Lake Office Plaza, Ltd.
Brookview Village, Ltd.
Park Newport LTD.
400 University Avenue Prospect Company
Tri-County Grove
Yorba Linda Apartments, Ltd.

FOREIGN INSURANCE VENTURES

Adria-TIC International Holdings, S.A.
La Metropole S.A.
Travelers Asset Management International Corporation
Travelers U.S. Property, Bermuda, Ltd.
Travelers-American Properties (One) N.V.
Travelers-American Properties (Two) N.V.
Travelers-American Properties (Three) N.V.
Travelers-American Properties (Four) N.V.
Travelers-American Properties (Five) N.V.
Travelers-American Properties (Six) N.V.

Travelers American Real Estate Company, Ltd.

T.M.E. (One) N.V.

T.M.E. (Two) N.V.

T.M.E. (Three) N.V.

Travelers Hill Samuel International, Limited

T.M.E. (Four) N.V.

The Travelers International Finance Company

INACTIVE COMPANIES

The Connecticut Fire Insurance Company

C.S.I., Inc.

Travelers Insurance Corporation Proprietary Limited

Employment Retirement Income Systems Company

Fund Administrators, Inc.

TIC Auto Body Co., Inc.

The Travelers Corporation of Asia Limited

United States Fidelity & Guaranty Company

The parent of United States Fidelity & Guaranty Company is USF&G Corp. Affiliates and subsidiaries (other than wholly owned subsidiaries) are:

Fidelity & Guaranty Insurance Underwriters, Inc.

Fidelity & Guaranty Insurance Co.

Light Street Income Fund, Inc.

Fidelity Insurance Co. of Canada

Fidelity & Guaranty Life Insurance Co.

Thomas Jefferson Life Insurance Company

DelMar Park Avenue Exploration Corp.

Fidelity & Guaranty Markets, Inc.

USF&G Turnkey Pension Corporation